



FOR RELEASE
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CONTACT: Erica Lepping
(202)401-3383

**Statement by U.S. Deputy Secretary of Education Frank S. Holleman III
On the Department's Management Success**

Today, the Department's Inspector General announced that our auditor, Ernst and Young, issued four qualified opinions and one disclaimer of opinion on the Department's five Fiscal Year 1999 financial statements. In just a year's time, we have made substantial progress - four out of five of our financial statements, with a few exceptions, have been found to fairly represent our operations. Our goal for next year is improve even further upon this. We are on track to a sound, comprehensive financial management system, and I believe this announcement validates our approach to the Department's financial management.

Taxpayers and students have enjoyed significant benefits over the past seven years as this administration has done more than any other to strengthen the management of federal education programs. For example, over the last seven years, we have: reduced the student loan default rate from 22.4 percent to 8.8 percent; increased collections on defaulted loans from \$1 billion to over \$3 billion; and, saved taxpayers over \$4 billion through the creation of direct student loans. The Department has also received excellent customer service ratings, matching the best in the private sector, Federal Express or Nordstrom, on our one-stop source for our publications and other information products, ED Pubs. Further, as an indication of our efficiency, a GAO report looking at our ten largest programs found that 99 percent of our appropriations go directly to the states and schools.

This administration has built a stronger, more efficient Department of Education than the one we inherited, all during a time when our responsibilities and budget have more than doubled. Moreover, we operate with only two-thirds as many employees as administered our programs in 1980. However, we know we have more work to do and we intend to do it. I look forward this year to further building on these accomplishments.

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Management Accomplishments at the Department of Education
February 14, 2000

- Education has only two-thirds as many employees as administered its programs in 1980, even though its budget has more than doubled.
- Education has trimmed its regulations by one-third, reduced grant application paperwork, and aggressively implemented waiver authority for legal roadblocks to state reform.
- The student loan cohort default rate is now a record-low 8.8 percent, after declining for seven consecutive years. It was 22.4 percent when President Clinton took office. As a result, taxpayers have saved billions of dollars.
- Collections on defaulted loans have tripled, from \$1 billion in fiscal year 1993 to over \$3 billion in fiscal year 1999.
- The Direct Student Loan program, proposed by President Clinton in 1993 and implemented in 1994, has saved taxpayers over \$4 billion over the last five years (compared to the federal cost if direct loans had instead been guaranteed loans).
- The creation of the National Student Loan Data System has allowed Education to identify prior defaulters and thereby prevent the disbursement of as much as \$1 billion in grants and loans to ineligible students.
- Customer service ratings for ED Pubs, Education's document distribution center, exceed those of premier corporations like Federal Express and Nordstrom.
- Education has a pattern of working cooperatively with the GAO and IG: According to former Deputy Secretary Mike Smith, Education has fully addressed 203 of the 234 GAO and OIG audits that were either unresolved in 1993 or issued since 1993. There are less than half as many open audits as there were six years ago.
- American education is improving: New high academic standards are in place in all 50 states. For the first time ever, the nation's reading scores are up in all three grades tested. Math scores have also improved. And 67 percent of high school graduates are going straight to college, one-tenth more than seven years ago.

*Testimony of Marshall S. Smith
Under Secretary, U.S. Department of Education*

*Committee on Government Reform and Oversight
Subcommittee on Government Management, Information and Technology
Chairman Steve Horn
May 23, 1995*

The U.S. Department of Education: Working for Learning

Thank you for the opportunity to speak with you today on the role of the U.S. Department of Education, its mission of ensuring equal access to education and promoting educational excellence, and the transformation it is undergoing to carry out its mission and serve the American people more effectively.

The Federal Contribution to Education Serving the National Interest in Education

The federal government has had a limited but very important role in education for over 130 years. This role started with federal support for the land grant college system in 1862 and expanded after World War II through such measures as the GI Bill, the National Defense Education Act, Head Start, and postsecondary student aid. Federal involvement in education supports America in sustaining an informed, involved citizenry and in developing the educated workforce we need to compete in a global economy. People with more education are more likely to vote; they tend to live more satisfying lives and to contribute to their communities.

Likewise the U.S. Department of Education has a limited but very important role -- a role that citizens of this country recognize and espouse. Indeed, recent polls show the public's strong support for the Department.

- When asked how necessary they think the federal Department of Education is, fully 80 percent of respondents said that the Department is necessary; 70 percent believe it is "very necessary" (*NBC/Wall Street Journal*, January 1995).
- In a poll released just last week, over three-fourths of the public (77 percent) oppose eliminating the U.S. Department of Education to cut the deficit. Public opposition to eliminating the Department was indeed higher than opposition to reducing cost of living adjustments in Social Security. The same percentage (77 percent) reject cuts to student loans and other education programs to reduce federal spending (*Time/CNN*, May 1995) ([Chart 1](#)).

The U.S. Department of Education addresses five areas of critical national concern:

1. Increasing Access to Postsecondary Education

As college becomes more and more expensive for average Americans, the Department provides 70 percent of all student aid, about \$32.5 billion, to give students greater access to postsecondary education -- the best system in the world. Pell Grants assist 4 million low income students; student loans help 6.5 million low and middle income students; and Federal Work Study provides aid to 700,000 students each year.

2. Helping States, Communities, and Schools Raise Academic Achievement and Meet the Needs of their Students

The Department delivers almost \$15.4 billion to states and school districts to assist local

elementary and secondary schools in providing a solid education to all children. The Goals 2000: Educate America Act (endorsed by every major business, parent, and educational organization) supports community and state efforts to raise student achievement to world-class levels. The Title I program directs about \$7 billion to more than 6 million children who attend our highest poverty schools, to strengthen the teaching of basic and advanced skills. These programs represent a partnership between the U.S. Department of Education and the states in which we provide incentives for school reform and states and communities set their own goals and plans for improving student achievement. The Department spends nearly \$3 billion to help communities meet the educational and developmental needs of over 5 million children and youths with disabilities. Additional support goes to help teachers improve their skills, build public-private partnerships to get technology into the classroom, and help schools become safe and drug free.

3. Facilitating the Transition from School to Work

The School-to-Work Opportunities Act provides seed money to help states and local communities prepare youth for good careers and equip them to learn for a lifetime through partnerships of schools, businesses, and community leaders. All states received grants in 1994 to develop strategies to build School-to-Work systems that meet the needs of their students and economies. By the fall of 1995, over half of the states will have received one-time five-year grants to build these school-business partnerships. The Department proposes to refocus the Perkins Act on helping prepare more young people for good jobs out of high school and for further education.

4. A Clearinghouse of Good Ideas and a Catalyst for Improvement

In every state and community, educators and families are learning about effective ways of teaching and learning through Department-sponsored research, evaluation, and technical assistance. The Department helps people identify what works and learn about the most promising strategies for improving their schools and their children's performance. Statistics on national trends and indicators of performance, such as the National Assessment of Educational Progress, keep the focus on areas of educational growth and on areas needing improvement. The Department is investing in more effective and efficient ways to share the good ideas through 1-800 numbers, e-mail, and the Internet. The Department responds to almost 1,000,000 information inquiries a year, providing 48-hour turnaround on answers.

5. A National Voice for Education

The U.S. Department of Education is a voice for excellence and progress, a voice that speaks to the public at large as well as within the cabinet. The 1983 report *A Nation at Risk* focused public attention on the centrality of education to America's future as a world leader. All previous Education Secretaries, both Republican and Democrat, have called for strong academic standards of the kind that the Goals 2000: Educate America Act now supports at the local and state level. Most recently, through the initiative of Secretary Riley, over 120 organizations have come together in a "Family Education Partnership for Learning" to support the American family, the foundation of a solid education. This initiative has been accomplished without creating a single new program or spending additional funds. As an outgrowth of the partnership, the Secretary has launched a reading and writing initiative, the kick-off of which he announced yesterday to encourage parents, other adults, and older students to read with younger children this summer.

Setting the Record Straight: American Education Has Improved

In the 15 years since the Department was created, it has contributed to positive trends in American education by directing national attention to the imperative for reform, by supporting state and local reform efforts, and more recently by focusing our programs on quality concerns, better student achievement and teaching. While U.S. education can certainly do better, and in many places education is not improving fast enough, there have been a lot of success stories since the 1980's, many assisted by the

U.S. Department of Education.

- **Students are taking tougher courses.** By 1992, the proportion of high school graduates taking the core curriculum recommended in *A Nation at Risk* (4 years of English, 3 years of social studies, 3 years of science, 3 years of math) had increased to 47 percent, up from 13 percent in 1982. The average number of credits in these courses taken by seniors has also increased (Chart 2).

More high school students are taking worthwhile math and science instruction as a result of state, district, and school standard-setting, assessment, and related activity. Raising standards has increased enrollments in core courses such as mathematics and science **without** weakening course content or driving up dropout rates, according to analysis of experience in various parts of the nation and aggregate results. Recent reports indicate that the trend is continuing. *The New York Times* (May 9, 1995) reports that tougher graduation requirements in New York City public schools are spurring thousands more high school students to take and pass college-preparatory mathematics and science courses.

- **Participation in the Advanced Placement (AP) Program has increased dramatically.** Since 1982, the number of participants has risen from 140,000 to 450,000, and the percentage of students participating has also increased sharply. Especially impressive is the growth in participation on the part of minority students. In 1994, 28 percent of AP candidates were minority students, compared to 13 percent in 1982 (Chart 3).
- **Achievement is up, particularly in math and science.** On the National Assessment of Educational Progress (NAEP), student performance has increased since the 1980's in science and math. The trend in reading has generally shown improvement (Chart 4). Results from national longitudinal studies show that the math performance of high school sophomores improved between 1980 and 1990, consistent with tougher course-taking.
- **Comprehensive school reforms in leading-edge states are showing impressive gains in student performance.** For example in Kentucky, a state that has overhauled its entire educational system, 4th, 8th, and 12th graders demonstrated dramatic improvement on 1993-94 assessments over previous years' tests in mathematics, reading, science, and social studies.
- **On the SAT, participation is way up and scores have been rising over the past decade.** Participation by members of racial/ethnic minority groups increased from 18 to 31 percent between 1982 and 1994. Math scores increased across all race/ethnicity groups from 1982 to 1994. Scores increased by 22 points for Asian American and African American students. Verbal scores increased for all minority groups, including all groups of Hispanic students except Mexican Americans, between 1982 and 1994, although they decreased slightly for white students. (These trend results are unaffected by recent changes made to the SAT program.)
- **Dropout rates have declined.** Overall, the dropout rate for 16- to 24-year olds declined from 14 percent in 1982 to 11 percent in 1993. Dropout rates declined between 1982 and 1993 by 4 percentage points for whites and 5 percentage points for blacks (although dropout rates for Hispanics remain high) (Chart 5).
- **Postsecondary enrollment and attainment have increased to record levels.** Over the past decade, enrollment in postsecondary institutions has grown steadily. The proportion of people ages 25 and over who have completed four or more years of college increased from 18 percent in 1982 to 22 percent in 1993. The proportion of minority group members (ages 25 and over) who have completed four or more years of college increased from 12 percent in 1982 to 18 percent in 1993.

For those who are surprised by these facts, I would further point out that American business and American workers have regained their status as the most productive in the world. This would not have been possible without a more educated workforce. Indeed, in this century, educational increases in the

workforce have accounted for almost one-third of the growth in the nation's wealth. We should be proud of our nation's schools, public and private.

Nonetheless, a great deal of work lies ahead. Though we have turned the corner, many of the nation's schools continue to lag behind some of our chief economic competitors -- this is a substantial cause for concern. The Department intends to be a supportive partner in helping states and communities accelerate the pace of school reform and encourage improvement throughout the country.

Moving Toward a Performance-Driven Department

The Department has had widespread management weaknesses. A GAO study conducted as late as September 1992, published in 1993 with the apt title "Long-Standing Management Problems Hamper Reforms," documented a historical lack of management vision; a critical need to improve basic management systems; and a need for a cultural change from a highly centralized agency focused on the short-term, with poor internal communications. Especially troublesome was the Department's lack of a formal planning process and formal coordinating management structure.

David Kearns, former Deputy Secretary of the Department and CEO of Xerox, recognized these problems and began to address them by introducing management techniques of continuous improvement that were successful at Xerox. Under the direction of the current Deputy Secretary, former Governor Madeleine Kunin, we are turning around our management problems. To accomplish these improvements, we are listening to our customers' concerns, focusing on our critical mission through strategic planning, and using our strategic plan to transform the way we function as a department. We are well on our way to becoming a performance-driven organization, one that is a leader in implementing the Government Performance and Results Act (GPRA). To that end, we are using strategic planning to help us streamline our programs, operations, and personnel.

Focusing on Our Critical Mission: Our Strategic Plan

Over the past two years, the Department's first-ever strategic plan has driven budget priorities, resource and personnel allocations, and strategies for carrying out reform.

The strategic plan has established four clear priorities. The first three priorities in the plan focus on our programs and initiatives and build upon new legislation -- Goals 2000, the Improving America's Schools Act, School-to-Work, and Direct Loans:

1. **To help states and communities enable all elementary and secondary students to reach challenging state and local academic standards.**
 2. **To help states and communities to create a comprehensive School-to-Work Opportunities System in every state.**
 3. **To ensure access to high-quality postsecondary education and life-long learning.**
- To accomplish these priorities requires a fourth priority:
4. **To transform the Department into a customer-responsive, high-performance organization to support the three substantive priorities.**

Our strategic plan, modeled upon GPRA, has set ambitious targets for performance in each of the four priority areas. They include:

- Between 1994 and 1998, the proportion of students who meet or exceed proficiency levels in reading and math on such measures as the National Assessment of Educational Progress will increase by 10 percentage points.

- By 2000 at least 450,000 youth, 50 percent of high schools and community colleges, and 50,000 employers will be participating in School-to-Work Opportunity systems. Participation will increase graduation rates, increase student achievement, increase the number of students completing a postsecondary certificate or degree program, and increase the number of students prepared for and participating in career ladder jobs.
- When fully implemented, the Direct Loan program will save taxpayers more than \$1 billion a year.
- By 1998, the Department will have implemented a redesigned, integrated financial management system that substantially reduces costs, automates functions now processed manually, enhances reporting capabilities, and improves program delivery.

We are proud that the U.S. Department of Education is one of the first agencies to implement GPRA and hold itself accountable for results.

Strengthening the Department

The purpose of the fourth priority is to make the Department more effective in helping improve U.S. education. Putting this into action has required that we focus on five major areas: (1) streamlining our programs to save taxpayers' money; (2) transforming our management to make it more efficient and effective; (3) cutting regulations; (4) cutting paperwork; and (5) providing increased flexibility for states, districts, schools, and our other customers.

Streamlining Programs to Save Taxpayers' Money

Over the past two years, we have cut, consolidated, and reshaped programs. This will both save money and allow us to be more effective. We have proposed saving a total of at least \$16.7 billion by 2000 by eliminating programs that do not produce results or that overlap with other federal functions, reforming the student loan program, and streamlining other existing programs:

- Between 1996 and 2000, we propose to save \$12 billion through accelerating the Direct Loan program to 100 percent of new loan volume by 1997-98. This phase-in of the program will enable all schools and student and parent borrowers to take advantage of the Direct Loan program's simplicity and flexibility ([Chart 6](#)).
- We have decreased the student aid default rate (Footnote: Cohort default rate: The percentage of student aid borrowers entering repayment status in any given year who default by the end of the following year); we have lowered it from a peak of 22 percent to 15 percent, and we intend to keep driving it down even further ([Chart 7](#)).
- We have increased our student loan collection efforts, principally through the tax refund offset program -- in 1990, defaulters returned \$879 million to the federal government; in 1994, we collected \$1.5 billion. The cost to the taxpayer of defaulted loans has been cut in half ([Chart 8](#)).
- In our FY 1995 and 1996 budgets, we have proposed eliminating 59 education programs and consolidating 27 others for a savings of \$4.6 billion by 2000. During the coming year we will propose ways to substantially further reduce the number of our programs.

Transforming Our Management

The Department is transforming its management structure and personnel practices to implement the best management practices of business and industry. Specifically:

- The Department is saving an additional \$100 million by reducing our personnel from 5,131 in FY 1995 to less than 4,700 FTE (about 9 percent) by FY 2000

This reduction is from a staff that had already decreased to significantly less than the 7,700 employed in 1979 by similar offices within the former Department of Health, Education and Welfare and six other agencies.

Moreover, our Department is already efficient. We have the smallest ratio of employees to grant volume in the government: 1 employee per \$6 million. And our administrative costs are low: just 2 cents of every Department dollar.

- We are implementing streamlining plans that cut supervisory layers, reducing the ratio of supervisors to staff by more than one-half by 1999.
- Sometime in the next few months we will announce plans to substantially reduce the number of senior management officials and offices.
- We will soon complete pilots that delegate most personnel classification and hiring authority from the central personnel office to line managers, reducing red tape and laying the groundwork for shifting these responsibilities to line managers throughout the Department by FY 1996.
- All SES employees now have performance agreements that reflect how they will contribute to implementing the strategic plan.
- We have engaged employees in revamping our operations through the "low-hanging apples" team, which addresses cumbersome but easily resolved management problems that impede progress. The team has over 100 recommended to improve efficiency and effectiveness, and most of them have already been implemented.
- The Department is using technology effectively to connect all employees electronically by the end of 1995, improving communication and helping our staff to work even more efficiently.

Cutting Regulations

The U.S. Department of Education is experiencing a regulatory revolution, as set forth in our strategic plan. We agree that regulations got out of hand during the 1980's and early 1990's, but note that many regulations are mandated by statute -- we look forward to working with you to revise these statutes to reduce regulatory burden. Faced with this situation, we have worked hard to deregulate where we can, and we are succeeding. As part of President Clinton's regulatory reinvention initiative, under the Vice President's leadership, we are well on the way to meeting our challenging deregulatory goals.

- We have reached out to talk with hundreds of customers and have reviewed every single Department regulation.
- **Today we eliminated 88 of those regulations -- 399 pages in all.** That's 30 percent of our total regulations.
- We have targeted dozens of other regulations for elimination, reinvention, and simplification, in consultation with our customers and partners. Our action on them will be announced shortly as part of the President's regulatory reform initiative.

Moreover, under our new "Principles for Regulating," we regulate only when essential to meet program goals, and then as flexibly and with as little burden on states, schools, and teachers as possible.

- Some of our most significant programs, including School-to-Work and Goals 2000, have been implemented **without issuing a single regulation.**
- Regulations for the Improving America's Schools Act (IASA), passed in October by the last Congress, have been kept to a bare minimum beyond those mandated by Congress. Most IASA programs have no new regulations; of 49 elementary and secondary programs, 38 will need NO

regulations. 7 will require limited regulatory guidance, and only 4 will need full regulations to carry out the program. For most, instead of regulating we're providing clear, practical information to help states and districts implement the new law.

- To protect students and the taxpayers' investment, we are targeting our oversight regulations and activities on abuses, where rules are needed. An example of our performance-based approach is in the area of student aid. We have to ensure that schools have the means to provide refunds to students who withdraw. We scrapped a burdensome proposed rule that would have required all 7,300 colleges and universities to set aside a reserve fund to cover refunds, and instead require **only** the handful of schools with a history of refund problems to provide a letter of credit.

Cutting Paperwork

We've listened to our customers' concerns about paperwork burden, and made significant strides in reducing it.

- In student aid we have eliminated duplicative forms, excessive parental signature requirements, and hard-copy reports where electronic transmission would work better for everyone. For example, by replacing paper Student Aid Reports with an electronic system, we **eliminated 4 million paper forms**. In the Direct Loan program, we provide participating schools with computer software, with a direct on-line connection to the Department to help schools get funds to students efficiently.
- We encourage states to submit a single consolidated application for all of their Elementary and Secondary Education Act programs in the Improving America's Schools Act (IASA), not only eliminating paperwork but also promoting comprehensive planning. We expect that almost all, if not all, states will be submitting consolidated applications.
- We have reduced our reporting requirements for states and districts through statutory changes, anticipating the President's request (as part of his regulatory reinvention initiative) that wherever possible agencies reduce the frequency of required reports by 50 percent. In most cases, the legislation has reduced annual reporting to reporting every two or every three years, and the new Title I eliminates statutory requirements for annual performance reports and state evaluations. The effect of changes like these is to let states, schools, and teachers concentrate on program results, not paperwork.

Grantees told us that it was too hard and too slow to apply for education grant funds and to get the funds once they qualified. So we revamped our whole system. Specifically, we eliminated application requirements for non-competing continuation awards, allowing the recipients of 6,000 grants to submit just simple annual performance reports. Moreover, we are working to cut the number of grant awards made each year, which now total almost 10,000, by staggering competitions every other year or consolidating several priorities under a few competitions.

Providing Increased Flexibility for Our Customers

Our new legislation is helping us change the way we do business with states, districts, schools, colleges, and families, to be more **flexible** and help energize reform at the state and local level. Key strategies include:

- Ed-Flex, a new demonstration authority for up to six states, provides an unprecedented opportunity to encourage innovation along with performance accountability. The Goals 2000: Educate America Act authorizes Ed-Flex demonstrations that enable officials in the Ed-Flex states, not the federal government, to decide on waiver requests. Oregon, through a simple review process, is the first state to participate.
- The Improving America's Schools Act (IASA) for the first time has a broad waiver authority for most of the Department's elementary and secondary education programs. Waiver requests under

IASA have already been submitted to the Secretary. Palm Beach, Florida and the Metropolitan District of Decatur Township, Indiana are the first two locales approved for a Title I waiver.

- The expansion of the schoolwide option for Title I gives all high-poverty schools the opportunity to blend Title I and other federal funds with state and local resources to upgrade the quality of teaching and learning in entire schools and throughout the entire program. In effect, this is a performance-based school grant to the point of actual delivery of services, the school. Upwards of 20,000 schools can take advantage of this option.
- The Charter Schools program provides start-up funds to encourage parents and teachers to create new public schools that can bring energy and new ideas to public schooling.
- The School-to-Work Opportunities Act, along with the Administration's proposals for the reauthorization of vocational education, provide waiver authority to allow states and local communities to integrate the reform of vocational education with broader education reforms and to strengthen the connections between education and training programs.
- Administrative funds consolidation allows states and districts, under the Improving America's Schools Act, to combine their administrative funds for Elementary and Secondary Education Act programs, giving them the opportunity to set their own priorities for administration, technical assistance, and evaluation and eliminating the artificial barriers that have gotten in the way of administering programs effectively.
- In postsecondary education, under Title IV institutions can now submit proposals to the Department to participate as "experimental sites" to try out experimental regulatory and management approaches. For example, institutions can propose that the Department waive requirements in exchange for performance measures appropriate to the institution and the objectives of the regulations in question. Many schools have expressed interest in this new opportunity.

We are building partnerships with states, districts, and postsecondary institutions to provide substantial flexibility in exchange for improved performance. In vocational and adult education, we are proposing to consolidate the more than 35 separate programs authorized under current laws into only two flexible state grant programs. These proposals, recently introduced in Congress, would greatly reduce state administrative and planning requirements and give states flexibility within broad frameworks in exchange for an emphasis on measuring and monitoring performance.

Direct Loans: An Example of Success

The Direct Loan program typifies our management success. For the first time in the Department's history, a loan program has received an unqualified "clean" opinion, the best rating possible, from an outside auditing firm.

The Student Loan Reform Act created the Direct Loan program to begin replacing the Federal Family Education Loan (FFEL) program, an unwieldy and duplicative system that results in poor performance for borrowers and schools and wastes federal funds. In less than 11 months, 104 schools have begun participating in the Direct Loan program. More than 1,400 schools will participate beginning in July 1995.

Contrary to accusations by special interests intent on maintaining the status quo (Chart 9), the Direct Loan program:

- Will save \$12 billion by 2000 under the accelerated phase-in proposed in the President's FY 1996 budget.
- Simplifies loan application procedures, resulting in quicker and more accurate payments to students and eliminating long lines at the financial aid office typical of the FFEL program.

- Reduces costs and improves accountability by eliminating the complicated structure of the FFEL program, with its thousands of financial intermediaries (Chart 10).
- Makes loan processing more efficient and provides for the first time the on-line, real-time information needed to better manage and oversee the loan program.
- Maximizes competition through the use of competitively-awarded contracts to private vendors, eliminating the virtual monopolies certain institutions have enjoyed under the FFEL program.

The program's customers -- schools and students -- have been extremely enthusiastic in their support of the new, more efficient program:

- The program has succeeded in satisfying the participating institutions: 92 percent of Direct Loan institutions said they were either very satisfied or somewhat satisfied in a recent survey.
- One school said, "Direct Loans put the students back where they belong -- at the center of this business." Another stated that the Direct Loan program "is beyond a shadow of a doubt the way a loan program should have been designed 20 years ago. For those of you who have concerns, so far the Department of Education has just been super!"
- A recent *Education Daily* survey of first-year schools lauded the Department for quickly answering questions, addressing problems, and being receptive to suggestions about the program.
- In their first report of a survey of community college participants in the first year of the programs, community college trustees stated that "all responses were positive to the question about the Department's management of the program and quality of service rendered."

The Importance of Education and the U.S. Department of Education

The Importance of Education

All of our management reforms have one ultimate purpose -- to enable us to be more effective in improving the quality of education for America's students. High quality education provides major benefits both for our nation as a whole and for individuals, promoting individual and social well-being. People with more education tend to live happier and more productive lives than those with less education:

- **Greater Prosperity.** In 1992, average annual earnings for those with a bachelor's degree were 74 percent higher than for those with a high school diploma, and 155 percent higher than for those who had not graduated from high school. Similarly, unemployment and poverty rates are lower for college graduates than for high school graduates, and the rates for both groups are much lower than for dropouts. For unemployment, the respective rates are 3 percent, 6 percent, and 11 percent; for families below the poverty level, they are 2 percent, 11 percent, and 24 percent. (Census Bureau, *Statistical Brief*, August 1994; Bureau of Labor Statistics, 1991; Census Bureau, *Current Population Reports*, P60-185, 1992)
- **Less Welfare.** Only 5 percent of college graduates have ever participated in government assistance programs (AFDC, Supplemental Security Income, food stamps, housing assistance, or Medicaid), and only 10 percent of high school graduates have, compared to 24 percent of high school dropouts. Only 1 percent of college graduates and only 3 percent of high school graduates have ever participated in AFDC, compared to 7 percent of dropouts. (Census Bureau, *Current Population Reports*, P70-31, 1988)
- **Less Crime.** Although only about 18 percent of the population has never finished high school, this

group accounts for 41 percent of state prison inmates and 47 percent of prisoners on death row. (Census Bureau, *Current Population Reports*, P20-471, 1993; Census Bureau, *1990 Census*; Bureau of Justice Statistics, *Profile of State Prison Inmates*, 1991; Bureau of Justice Statistics, *Capital Punishment*, 1992)

- **More Civic Participation.** Fully 85 percent of college graduates and 75 percent of high school graduates, but only 50 percent of high school dropouts, are registered to vote. In the 1992 Presidential election, 81 percent of college graduates, 58 percent of high school graduates, and 41 percent of dropouts voted. With regard to volunteering, 77 percent of college graduates, 45 percent of high school graduates, and 22 percent of those without a high school diploma do volunteer work. (Census Bureau, *Current Population Reports*, P20-466, 1992; Independent Sector survey, 1992)

Public Support for the Department

The public understands the benefits of education and looks to the national government for leadership to help extend those benefits to all Americans. The American public sees quality education as a local concern that needs the support of governments, businesses, community members, and parents to succeed. Across the country, people tell us that they want the federal government to play a supportive role by helping students afford college; providing extra help to local communities and states that are working to improve schools, teaching, and learning; promoting family involvement in learning at home and at school; and helping create programs that prepare high school students for productive work.

Despite well-publicized claims to the contrary, there has been no "federal takeover" of the state and local roles and responsibilities in education. All decisions about what to teach and how to teach it, including sensitive issues like sex education, religion, evolution, and cultural diversity, are made at the state, district, and school level to reflect what is appropriate for local students and communities. Indeed the Department of Education Organization Act prohibits the Department from exercising any control over curriculum or instruction. Moreover, all of our legislative initiatives have increased flexibility for states and school districts, not decreased it.

The strategies the Department is pursuing respond to the public's needs. With a strategic plan and leadership willing to set ambitious performance targets, we are transforming the Department into a results-driven agency. We are cutting out the red-tape and overregulation that ties government into knots and frustrates customers. We are working with states and communities to develop partnerships that link increased accountability for performance with much greater flexibility. And we will work hard to continue to earn the public's support for improving education and carrying out our mission "to ensure equal access to education and promote educational excellence."

The Role of the U.S. Department of Education

Even though the public believes that the federal government has an important role in education and supports the U.S. Department of Education, the future of the Department is in doubt. Various proposals have been raised, including a "neutron bomb" approach that would do away with many of our staff but leave most of the programs, scattering them haphazardly around the government, and a merger that would envelop the Department in a large, unwieldy bureaucracy. Unless Congress plans to abandon the 130-year-old federal role in education, these programs will just end up being administered by someone else, somewhere else.

All of these proposals amount to nothing more than moving boxes around on an organization chart, without generating any real savings. In fact, there is a strong likelihood that costs would increase, if the history of the Department's creation, and accompanying reduction in staff, is any guide. When the Department was formed in 1980, it comprised programs that had been staffed by 7,700 people, yet within a few years its staff was reduced to approximately 5,000, where it has remained for the past decade. Merger with another Department would add bureaucratic layers and complexity for our customers, while spreading programs around would lead to duplicated overhead costs and a massive burden on customers searching for assistance and information. The likeliest outcome of any of the

proposed changes will be dislocation and disruption of services to states, school districts, and students, along with the loss of a central voice for education (Chart 11). If the federal government remains committed to providing national leadership in education, the small and effective Department remains the best means of carrying out that role.

To quote Secretary Riley, "It is clear that the future strength of our nation lies in the education of our citizens and in how well prepared they are to meet the challenges of the 21st century. This is not the time to walk away from our children and (their) education."

Thank you.

Statement by
Marshall S. Smith
Acting Deputy Secretary
U.S. Department of Education

before the
Subcommittee on Postsecondary Education, Training, and Life-Long Learning
U.S. House of Representatives Committee on Education and the Workforce
on
The William D. Ford Direct Loan Consolidation Program
September 18, 1997

Mr. Chairman and Distinguished Members of the Committee:

Thank you for inviting me to be here today. I am pleased to have the opportunity to clarify for the committee the problems we and our contractor, Electronic Data Systems (EDS), have experienced in administering the loan consolidation process of the William D. Ford Direct Loan Program and the steps taken to address those problems.

I will not attempt to minimize these problems today. The stories we heard in testimony this morning are the types of experiences that have led the Department to its recent actions. On behalf of the Secretary, I would like to apologize to David Whelan, Angela Jamison, and others like them for the unacceptable quality of service they received. We are very aware of these problems and deeply committed to solving them.

That is why, on August 26, 1997, we told EDS to temporarily delay the last phase of the consolidation process while it took immediate action to correct deficiencies in its current process. With new controls in place and the approval of Price Waterhouse, the independent quality control unit on this project, EDS began last week to phase-in production of loan funding and booking, the final stage of loan consolidation. We also told EDS to temporarily stop accepting new loan applications effective August 27, 1997 so it can eliminate the backlog of applications that have accumulated since it took over this contract last fall.

Consolidation is the process of combining several loans into a single loan. Most borrowers consolidate their loans after they complete their education. The origination of a new single loan is not affected by the problems of consolidation. The direct loan program continues to run smoothly for today's students.

We deeply regret the inconvenience the temporary delay has caused to borrowers from these actions, but believe that this is ultimately the best way to ensure quality service to all borrowers wishing to consolidate their loans into direct student loans.

Addressing Borrowers' Concerns

Borrowers are our top priority: we are committed to ensuring that no additional borrowers are harmed. To this end, we are working with EDS to take several important steps:

- First, EDS will contact all borrowers who have already consolidated their loans into the direct loan program to confirm their satisfaction with their consolidation loan and to address any outstanding problems they may have.
- Second, for the borrowers whose applications are currently in the system, we have made forbearance available upon request. While in forbearance, a borrower may choose not to make payments or to make partial payments without penalty, although interest continues to accrue if it is not paid. In addition, they may be eligible for deferment.
- Third, there are some borrowers in the system for whom EDS is currently awaiting information in order to complete the consolidation process. EDS is contacting all of these borrowers again in order to facilitate the processing of their applications.
- Fourth, EDS will establish a special hotline to counsel any borrower who anticipates that he or she may default on his or her current obligations while awaiting the completion of the consolidation request.
- Fifth, EDS is working collaboratively with lenders to verify information about the precise amount that each borrower owes on his or her loans.
- Sixth, EDS is contacting each of the borrowers who has expressed interest or applied for a direct loan consolidation after August 26, 1997, but whose application EDS has not accepted due to the temporary suspension. EDS is counseling them about their alternatives to direct loan consolidation right now. One possibility for these borrowers is to continue making payments on their loans until direct loan consolidation becomes available. Borrowers also have the option to request deferment or forbearance. A third option for borrowers would be to consolidate their FFEL loans with a FFEL lender.

Let me now turn to how we are addressing the problems of consolidating loans at EDS.

EDS is implementing a plan it developed with the Department and Price Waterhouse to complete the consolidation process for the applications it received prior to August 27. The plan includes EDS accepting new applications no later than December 1, and sooner if Price Waterhouse certifies that EDS has met certain performance criteria.

Today, I will describe the actions the Department has taken to address the problems with the loan consolidation system. I will also discuss steps the Department is taking to improve and modernize its student aid programs. First, however, I would like to put these problems in perspective.

The Department's Student Aid Responsibilities

Each year, the Department promptly and efficiently delivers financial aid to millions of America's students. Despite the challenges facing the direct loan consolidation program, the student aid system as a whole is stronger than it has been in years. For example:

- In fiscal 1997, through our contractors, we supported the delivery of more than \$36 billion in grants, loans, and work-study funds to 7 million of America's students, including \$6 billion in

Pell Grants, \$3 billion in Campus-Based aid, \$9.5 billion in direct loans, \$17 billion in Federal Family Education Loans (FFEL). An additional \$5 billion in consolidated loans was provided to 500,000 borrowers.

- With a strong charge from Congress in 1992, our initiative to improve the FFEL program has helped cut the cohort default rate in half, from 22.4 percent in 1990 to 10.7 percent in 1994, the last year for which figures are available. Collections on defaulted FFELs have more than doubled, from \$1 billion in fiscal year 1992 to \$2.2 billion in fiscal 1996.
- During fiscal 1997, the Department's private-sector contractor processed 9.5 million Free Applications for Federal Student Aid (FAFSAs) and we are now sending out next year's FAFSAs earlier than ever before.
- The Department has also launched FAFSA on the Web, a free, secure Web site that allows students to submit their FAFSA over the Internet. FAFSA on the Web gathers more accurate data because of automatic prompts to resolve inconsistent or conflicting entries. It has been awarded the prestigious national "Lycos Top 5 Percent of the Web" award.
- The National Student Loan Data System (NSLDS) now contains information on 34 million past and present financial aid recipients and is routinely used in pre-screening applicants for federal aid. From January 1995 through the first half of 1996, NSLDS identified more than 125,000 applicants as prior defaulters, helping to prevent as much as \$385 million in loans and Pell grants to ineligible students.
- 916 schools have been removed from student aid programs over the past four years, including 693 schools from all student aid programs and an additional 223 from federal loan programs, for reasons that include high default rates, a strong recertification requirement, and withdrawals.
- The Department cleared the backlog of 2,263 appeals from over 600 schools in the last 18 months that had been determined to be ineligible for student loan programs. Because institutions remain eligible while on appeal, the backlog of unresolved appeals had substantially hindered the Department's enforcement efforts.

Since its inception in 1994, the direct loan program has provided a simpler, more automated, and more accountable system for borrowers and participating institutions. In just three years, students and schools have witnessed the development of an improved level of customer service in financial aid delivery.

The success of the Department's efforts is reflected by the rapid growth of the program. The number of schools actively participating in the program has increased from 104 in the first year to roughly 1300 today, and their volume represents approximately one-third of the \$30 billion market in new student loans. To give you a point of comparison: nearly nine years after the break-up of AT&T, it had not yet lost one-third of the market share it had as a monopoly.

The growth is particularly impressive in light of the fact that the future of the program has been debated continuously, dissuading some schools from joining the program. The program has distributed \$9.5 billion in new student loans this year because of the excellent service it provides to students and schools.

Furthermore, competition from the direct loan program has forced FFEL lenders and servicers to improve their customer service as well. As the Advisory Committee on Student Financial Assistance wrote in its August 1996 report, "Competition from the federal direct lending program since its inception three years ago has improved the FFEL program significantly."

Direct Loan Consolidation

Nonetheless, it is true that the loan consolidation program is facing serious challenges. Of the 142,856 borrowers who have applied to have their loans consolidated through the direct loan program, EDS has consolidated the loans of 53,711 of them. The applications of 84,078 borrowers are still pending and 5,067 borrowers withdrew their application or failed to submit a promissory note after repeated reminders.

Table 1. Status of Consolidation Applications Received by EDS

Applications Received	142,856
Applications in Process	84,078
Applications Withdrawn	5,067
Completed Consolidations	53,711

As background, our first direct loan contractor, Computer Data Systems Inc. (CDSI), initiated its loan consolidation process in March 1995. The CDSI process was personal computer-based and relied heavily on manual procedures. When the contract came up for renewal, EDS, a leading private-sector firm with an international reputation for managing large computer systems, was awarded the competitive contract based upon its proposal for a technologically sophisticated, client-based process that would provide lower cost and a greater capacity for increased volume.

EDS was required to pass a rigorous systems testing process developed by the Department and approved by Price Waterhouse. After all required phases of testing were successfully completed with approval from Price Waterhouse, the Department allowed EDS to assume direct loan consolidation operations on September 16, 1996.

Despite extensive testing and review, EDS experienced systems problems in part because of some processes incorporated into the system to reduce the need for manual intervention that created some new, undetected problem areas.

Consolidating student loans is like consolidating several mortgages on a home, hundreds of times a day. Every consolidation may involve multiple parties, including the consolidator, the borrower, credit bureaus, guaranty agencies, and an average of three lenders. Erroneous, incomplete or late information from any of these parties delays the consolidation. And because loan balances are constantly changing due to the accrual of interest and borrower payments, a lag in the reporting of two pieces of information can become a real obstacle to timely and accurate loan consolidation.

Compounding these obstacles was the sheer volume of loan consolidation applications EDS received. Based upon our experience in the first two years of the program and comparisons with Sallie Mae, the largest private loan consolidator, we anticipated roughly seven thousand consolidation applications per month. In fact, since September 1996, EDS has received roughly twelve thousand applications per month. This volume made it very difficult to trouble-shoot and fine-tune the system while also processing consolidations.

On August 26, 1997, EDS temporarily delayed the final, funding and booking phase of the consolidation process while it took immediate action to correct deficiencies in its processes. EDS also temporarily stopped accepting new loan consolidation applications so it could eliminate the backlog of applications that accumulated since it began consolidating loans last fall. EDS continues to process the applications it has already received and has already resumed the last phase of the consolidation process for some loans.

Most borrowers with only direct loans are not affected by the temporary suspension because their

loans are already included in a single payment, and thus may be seen as self-consolidating. Likewise, borrowers with only FFEL loans could consolidate with a private lender, although the terms of consolidation may not be as beneficial. Borrowers who temporarily cannot apply to consolidate all their loans include those who have both direct and FFEL loans and FFEL borrowers who are unable to secure a satisfactory repayment plan from a FFEL lender.

The Department has faced this problem head-on. As I have previously emphasized, we are deploying every available resource to mitigate the effect on borrowers of the loan consolidation delays. We are also taking decisive action to remedy the problems at EDS.

We increased our staff working on-site with EDS in Montgomery, Alabama. The team included senior Department and Price Waterhouse staff and expert consultants with extensive banking experience that have been added to the EDS staff. Together, we are developing and implementing three plans: (1) to improve the direct loan consolidation process immediately and complete the pending applications; (2) to remedy errors made in previous consolidations, and (3) to re-engineer the process to increase capacity and improve timeliness and accuracy over the long-term.

First, working with the Department, EDS developed and implemented a plan, reviewed by Price Waterhouse, to establish new procedures to improve the timeliness and accuracy of the loan consolidation process immediately and complete the pending applications. EDS began implementing this plan on September 12. New procedures include:

- Re-aligning staff responsibilities to address process bottlenecks;
- Increasing the use of the National Student Loan Data System to verify student information;
- Establishing hotlines between EDS and lenders to verify loan information;
- Devoting additional staff to obtaining up-to-date information to ensure accurate consolidations;
- Improving the process for verifying eligibility for income-contingent repayment with the Internal Revenue Service;
- Upgrading the document imaging system to reduce errors; and
- Establishing standard reporting procedures for lenders to reduce burdensome data entry.

EDS is now using these new procedures to consolidate applications currently in the system. In addition, EDS will be required to commit additional resources to the project if Price Waterhouse and the Department determine on October 6 that it has not met its weekly production targets.

EDS is also preparing for an anticipated surge of loan consolidation applications after EDS begins processing new applications. EDS has assured us that the new procedures will allow them to handle those loans in a timely and accurate manner. In order to resume accepting new applications, EDS will have to meet six key performance indicators:

- No more than a two-week inventory of certifications (15,000 certifications or fewer);
- 100 percent accuracy rate on data entry on promissory notes and certifications;
- Increased accuracy rate, acceptable to the Department and Price Waterhouse, on a statistical sample on promissory note writing;
- All problems with transactions submitted to servicing are resolved within 72 hours;
- EDS performs to the Department and Price Waterhouse-approved plan for resolving prior errors; and
- Demonstration to the satisfaction of the Department and Price Waterhouse that its system can track status of all applications, including exceptions.

Second, by the end of the month EDS will finish a separate plan to correct inaccurately consolidated loans. EDS will undergo 100 percent validation for all loans. The plan will be reviewed by the

Department and Price Waterhouse before it is implemented. It is of the utmost importance to us to rectify these errors and ensure future accuracy.

Finally, both EDS and Price Waterhouse have submitted long-term plans to fully re-engineer the loan consolidation process. These proposals are expected to lead to substantial improvements in the loan consolidation system's capacity, accuracy, and timeliness. EDS will implement a re-designed process by April 1998.

Modernization

Over the last few years, the Department has undertaken a variety of steps to modernize its student financial assistance systems and integrate the stove pipe data systems that have developed over many years. While the Department has made significant strides in improving and modernizing the management and delivery of student financial assistance, we clearly have much further to go. The Secretary and I are personally committed to dramatically changing the way we do business to provide better service and ensure that we never again face the situation we did this summer with loan consolidation.

To that end, the Department is establishing a Student Financial Assistance Modernization Board. The board will advise the Secretary on a wide range of student aid management issues. The Deputy Secretary will chair the board. Its membership will consist of key officials from the Department, Office of Management and Budget, and National Economic Council and senior federal officials with expertise in contracting, procurement, and information technology, and the Board will draw upon expertise in the private sector and the higher education community.

Important

The establishment of the board is a significant step toward further improvement in the Department's management practices. The board will play a major role in reviewing and shaping the Department's management and modernization initiatives and will make recommendations regarding changes in contracting procedures, information technology plans, organizational structure and the alignment of personnel and functions, programmatic and administrative simplification, and a business plan with performance targets and timelines using best industry practices and new information technology.

We support the fundamental elements of a Performance Based Organization (PBO) for the delivery of student financial aid: a performance-driven organization with greater management flexibility and greater accountability for results. I will ask the Modernization Board to review immediately the elements and suitability of a PBO for the delivery of student financial assistance. A PBO would have a Chief Operating Officer who would report to the Secretary. It would be given greater contracting and personnel flexibility than the Department currently enjoys and would be responsible for managing the delivery of student aid against a set of performance measures.

But we all know that it is easier to support the creation of a PBO than to create one. Many federal agencies have considered them for years, but not one has been created within in the federal government to date. We will be looking closely at what changes in law and regulations are needed to create a successful PBO and will be making recommendations to Congress.

Conclusion

In conclusion, our top priority is minimizing the impact on students of the difficulties facing the direct loan consolidation program. We are doing everything in our power to expedite the applications of borrowers who have already applied for direct loan consolidation and to prevent them from suffering from the temporary suspension of consolidations. At the same time, we are committed to changing the direct loan consolidation process to ensure that future applicants will be better served. I believe the course of action that we are undertaking is sensible, responsible, and will accomplish

these goals.

My colleague and I would be happy to answer any questions you may have.

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Last Updated -- September 18, 1997. (mvr)

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Prepared Testimony of
Deputy Secretary Frank S. Holleman III
U.S. Department of Education
Before the
Subcommittee on Oversight and Investigations
Committee on Education and the Workforce
U.S. House of Representatives
September 19, 2000

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to appear today. I appreciate the opportunity to share my views on the financial management of the U.S. Department of Education, and provide an update on our Financial Statement audit for Fiscal Year 2000.

Secretary Riley and I are strong believers in the potential of the Department's programs to improve American education, help all children reach high standards, and open the doors to college. Over the last year, we have reinvigorated our emphasis on strong management because we want to be sure that the federal investment in education is used as efficiently and effectively as possible.

Last March, I testified before this Subcommittee that our auditor was able to express an opinion on four of our FY 1999 financial statements because we had strengthened our financial documentation and data integrity. Moreover, we completed our work on time despite the need to prepare five additional financial statements for our Student Financial Assistance programs and a five-week delay in beginning the process. I also stated my belief that this audit result

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validated our approach to improving the Department's financial management. Today, I am pleased to share the significant progress that has been made in the last 6 months.

Obviously, our goal is to receive an unqualified audit opinion every year, but it is too early in the audit cycle to know if our Fiscal Year 2000 statements will be clean. However, the Department has made substantial progress in overcoming the obstacles outlined by Michael Lampley, the Ernst and Young partner who also testified last March.

As you may recall, the Subcommittee requested that Ernst & Young describe those obstacles that prevented it from delivering an unqualified opinion on all of our Fiscal Year 1999 financial statements. I would like to now describe how the Department has tackled those obstacles.

- The Department can now automatically produce the Statement of Financing with its other statements.
- The Department has changed its processes to ensure that prior period adjustments are recorded as such in the accounting system. The Department has now begun to use the standard general ledger account 7400 to record prior period adjustments and is reflecting these transaction in the appropriate line in its financial statements.
- The Department continues to develop subsidiary reports that will enable it to validate that governmental and non governmental accounts payable and accrued liabilities transactions are properly coded for financial statement presentation purposes.
- The Department was able to provide adequate support for approximately \$800 million reported in the Federal Family Education Loan Program, net position balance. ED

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properly reclassified the net position balance to liabilities for loan guarantees and loan receivables using the prior period adjustment account. These adjustments will be reflected in the FY 2000 Financial Statements.

- The Department analyzed, documented, and reconciled a \$700 million difference between certain budgetary and proprietary accounts for the Federal Family Education Loan Program. The transactions to resolve the reconciling difference have been entered into the accounting system, and will be reflected in the FY 2000 Financial Statements.
- The Department analyzed, documented, and reconciled a \$288 million difference reported in unexpended appropriations. ED and the Treasury Department are currently performing a post validation of the reconciliation analysis. Although immaterial, the Department continues to research the outstanding variance. Once research is complete, the transactions to record this reconciliation will be entered into the accounting system and will be reflected in the FY 2000 Financial Statements.
- We are aggressively examining the business processes that determine beginning balances for accounts payable and related accruals. We are devising relationship analyses that allow the Department to maintain accurate records to support an ending balance of about \$10 million each year.

Another sign of progress is our effort to implement our auditor's internal control report recommendations. As Inspector General Lorraine Lewis noted in her prepared testimony last December, the Department had implemented only 28 of the 115 recommendations (including duplicates) made in the previous four audits. The FY 1999 audit included an additional 24

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recommendations — mostly related to prior recommendations to correct previously identified weaknesses. We have now completed action on 80% of the audit recommendations (112 of 139 actions) and have the OIG's closure concurrence on 95 actions. Of the remaining 27 open recommendations, I have made their resolution a top priority. We anticipate that work on these items will be completed throughout Fiscal Year 2001. These items should close as we implement Oracle Financials, and our disaster recovery site becomes fully operational.

Our implementation of these audit recommendations have strengthened our financial management 5 important ways.

FIRST, we have improved our reconciliation process. Prompt and accurate reconciliation helps us detect and resolve potential errors. Our automated reconciliation tool has permitted the Department to reconcile on average about 94 percent of our monthly accounting system transactions with the Treasury Department. This, coupled with staff research, has permitted the Department to match upward of 98% of the transactions for a given month.

SECOND, we can automatically generate monthly financial statements from our general ledger trial balance. During Fiscal Year 2000 the Department provided two sets of interim statements to Ernst and Young, which allowed them to begin auditing our FY 2000 books in June — two months ahead of the prior Fiscal Year. This is a solid indicator that we will deliver our audit on time a second year in a row.

THIRD, we have strengthened the documentation of our policies and procedures over our financial operations and internal controls. This documentation has been made available to our staff and auditors via a web based application. We believe our "Procedures that Work" application is a government-wide best practice. Moreover, targeted training using these procedures will continue to be delivered to appropriate staff. This in turn will permit the Department to better comply with statutory regulations; for example, the Credit Reform Act provisions that require unobligated balances in the liquidating fund to be returned to the Treasury Department at least once a year.

FOURTH, we are on target with the implementation of a new general ledger system. I am pleased to announce that our independent verification and validation contractor, Arthur Andersen has confirmed our October 1 milestone success. We have also been able to begin phase two and three activities earlier than anticipated.

FIFTH, and finally, as we approach the final implementation phase of our Grant Administration and Payments System (GAPS), data integrity concerns voiced by the General Accounting Office (GAO) in their review of our Grantback Account, and by Ernst and Young our independent auditor, can now be fully addressed. Specifically, this system permits the Department to maintain detailed transaction history data at the grant award level, and greatly reduces the need to make manual accounting adjustments. This is because precise funds management controls direct transactions to the correct appropriation. Before GAPS, the Department had to estimate

how the pooled award advances had been allocated across appropriations, and then reconcile them once actual claims were made for the specific grant awards.

The Department's use of grant-award level transaction history:

1. Assures full compliance with the Anti-Deficiency Act, eliminating any concern that funds might be drawn in excess of those appropriated and apportioned for any program;
2. Improves agency ability to reconcile cash and other outlays quickly and correctly;
3. Significantly improves agency capability to report outlays to the Office of Management and Budget and Congress on an appropriation and program level, as they require;
4. Improves our agency's capability to monitor recipients and provide oversight for the programs delegated to us by Congress; and
5. Increases the partnership between the Department and its recipients through our efforts to provide full assistance to recipients in resolving financial and program problems.

We are confident that all four of the recommendations made by the General Accounting Office in its review of the Grantback account will be implemented by November 2000. It is my understanding that the 4 recommendations concerning our cash reporting practices have already been closed.

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Secretary Riley and I recognize the importance of financial management. Unfortunately, there is no shortcut to establishing a sound, comprehensive financial management system. We will continue to work hard. I believe the FY 2000 audit will demonstrate our continued progress. I would be happy to answer any questions you may have.

Request for Comment
Tele. home call with [unclear]

Page 5 Testimony:

Education was unable to provide adequate support for about \$800 million reported in the September 30, 1999, net position balance in its financial statements, and the auditors were unable to perform other audit procedures to satisfy themselves that this amount was correct.

Request insertion immediately after paragraph:

According to Education Officials, the Department analyzed, documented, and reconciled a \$700 million difference between certain budgetary and proprietary accounts for the Federal Family Education Loan Program. The transactions to resolve the reconciling difference have been entered into the accounting system, and will be reflected in the FY 2000 Financial Statements.

Page 5 Testimony:

Education processed many transactions from prior fiscal years as fiscal year 1999 transactions and manually adjusted its records in an effort to reflect the transactions in the proper period; however, the auditors could not determine if these adjustments for certain costs and obligations were correct.

Request insertion immediately after paragraph:

According to Education Officials, the Department has changed its processes to ensure that prior period adjustments are recorded as such in the accounting system. The Department has now begun to use the standard general ledger account 7400 to record prior period adjustments and is reflecting these transaction in the appropriate line in its financial statements.

Page 5 Testimony:

The auditors were unable to determine whether beginning balances for accounts payable and related accruals were accurate.

Request insertion immediately after paragraph:

According to Education Officials, the Department is aggressively examining the business processes that determine beginning balances for accounts payable and

related accruals. We are devising relationship analyses that allow the Department to maintain accurate records to support an ending balance of about \$10 million each year.

Page 5 – 6 Testimony:

In addition, the auditors did not issue an opinion (referred to as a disclaimer of an opinion) on the Department's Statement of Financing. The Statement of Financing provides a reconciliation or "translation" from the budget to the financial statements. The statement is intended to help those who work with the budget to understand the financial statements and the cost information they provide. The auditors stated that the reason for this disclaimer was that the Department did not perform adequate reconciliations and present support for amounts on the Statement of Financing in a timely manner.

Request insertion immediately after paragraph:

According to Education Officials, the Department now automatically produces the Statement of Financing with its other statements.

Testimony Page 8:

In response to the auditors' findings, Education officials told us that they have developed an implementation plan for the replacement of the general ledger system. The officials further stated that Education had purchased a new general ledger system and completed all the planned corrective actions in response to the auditors' recommendations related to financial reporting weaknesses. However, this new general ledger system will not be fully implemented for fiscal year 2000, and Education will continue to work around the system [...] to produce consolidated financial statements. Education officials said that the Department plans to fully implement the new general ledger system by August 2001 and to eliminate the current general ledger system by January 2002. To facilitate the fiscal year 2000 consolidated audit, Education prepared interim financial statements as of June 30, 2000.

Request insertion:

Education will continue to work around the system [by interfacing a software application with its current general ledger] to produce consolidated financial statements.

Testimony Page 10:

1992. Any unobligated balances in this account at fiscal year end are unavailable for obligations in subsequent fiscal years and must be transferred to the general fund. Further, Education did not sufficiently analyze the balances reflected on the financial statements to ensure that the FFELP balances agreed with relevant balances in the Department's budgetary accounts. The auditors stated that this situation resulted in an unexplained difference of about \$700 million between the FFELP Fund Balance with Treasury account and related budgetary accounts as of September 30, 1999. By not properly accounting for and analyzing its

FFELP transactions as required by the Federal Credit Reform Act of 1990, Education could not be assured that its financial or budgetary reports were accurate.

Request insertion below paragraph:

According to Education Officials, the Department analyzed, documented, and reconciled a \$700 million difference between certain budgetary and proprietary accounts for the Federal Family Education Loan Program. The transactions to resolve the reconciling difference have been entered into the accounting system, and will be reflected in the FY 2000 Financial Statements.

Education returned the \$2.7 billion to the Treasury in February 2000. The Department also established policies and procedures to ensure compliance with the Credit Reform Act.

Report from the

Subcommittee on Expanding Employment Opportunities for Young People with Disabilities

TO THE
PRESIDENTIAL
TASK FORCE
ON EMPLOYMENT
OF ADULTS WITH
DISABILITIES

Co-Chairs:

Sue Swenson, Commissioner
Administration on Developmental Disabilities
Department of Health and Human Services

Curtis Richards, Deputy Assistant Secretary
Office of Special Education and Rehabilitative Services
Department of Education



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

The Honorable Alexis Herman
Chairwoman, Presidential Task Force on
Employment of Adults with Disabilities

The Honorable Tony Coelho
Vice-Chair, Presidential Task Force on
Employment of Adults with Disabilities
200 Constitution Avenue, N.W., Room S-2312
Washington, D.C. 20210

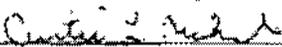
Dear Chairwoman Herman & Vice-Chair Coelho:

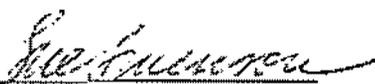
Under cover of this memorandum, we transmit the 1999 report to the President from the Committee on Access to Employment and Lifelong Learning Subcommittee on Expanding Employment Opportunities for Young People with Disabilities. We understand that this report will be made available concurrent with publication of the full Task Force report in December.

The report contains a summary of current and planned activities and was drafted with the assistance of Subcommittee members. It addresses school-to-work transition and other strategies designed to improve young people's opportunities for success in the workforce.

We approve this report as written and submit it to you for publication and public use.

Sincerely,


Curtis Richards, Deputy Assistant Secretary
Office of Special Education and
Rehabilitation Services


Sue Swenson, Commissioner
Administration on Developmental
Disabilities, US Department of
Health and Human Services

Mission and Goals

The *Subcommittee on Expanding Employment Opportunities for Young People with Disabilities*, co-chaired by Sue Swenson, Commissioner of the Administration on Developmental Disabilities, and Curtis Richards, Deputy Assistant Secretary of the Office of Special Education and Rehabilitative Services, established the following mission and goals.

The charge of the Subcommittee is to:

1. Review and analyze current data on the status of young people, with and without disabilities, transitioning from adolescence to adulthood and the world of work.
2. Identify and promote effective practices that assist young people with disabilities in successfully transitioning from adolescence to employment.
3. Review and analyze current legislative authorities and programs that affect young people with disabilities, and make recommendations for the alignment or improvement of Federal programs that ensure successful transition of young people with disabilities to employment.

The goals of the Subcommittee are to:

1. Identify and eliminate Federal policies that are barriers to employment for young people with disabilities.
2. Make recommendations that promote effective Federal policies and eliminate policies which are barriers to employment.
3. Develop an action plan that leads to a coordinated and aggressive national strategy to ensure that young people with disabilities enter the workforce at comparable rates and pace as their non-disabled peers.
4. Develop recommendations for influencing State and local policy and practice for young people with disabilities and chronic health conditions in achieving employment.

Background

Overview

In its first report to President Clinton and Vice President Gore, the Task Force recognized the importance of focusing attention on the issues facing young people with disabilities. One of the recommendations in *Re-charting the Course: The First Report of the Presidential Task Force on Employment of Adults with Disabilities* states:

The Administration should work with States, communities, schools and others to assist young people with disabilities with the tools they need to believe in themselves and to pursue positive futures; to avoid teen pregnancy, substance abuse and other risk behaviors; to finish high school and go on to college or work; to take full advantage of school-to-work and community and national service opportunities; to experience, learn from, and build on early life successes; and to assume positive control and responsibility for their individual lives and futures.

With this recommendation, the Task Force called for an end to the expectation that yet another generation of young people with disabilities would stay out of the workforce and become dependent on public assistance programs. Therefore, the leadership of the Task Force created the *Subcommittee on Expanding Employment Opportunities for Young People with Disabilities* as a subcommittee of the Committee on Access to Employment and Lifelong Learning.

Definition of Terms

At the Subcommittee's first meeting, the breadth of issues to be considered seemed daunting. Before shaping a specific charge, members of the Subcommittee believed it necessary to begin by defining the key terms that would guide its work: Who is the target audience? What is meant by transition and employment? The following common definitions were developed:

Young People: The focus of the Subcommittee's work will be on young people between 14 and 25 years old. However, it is important to remember that young people begin thinking about work at much earlier ages. It is not uncommon for elementary and middle-school students to emulate adult role models and aspire to their professions. The Subcommittee believes that its work will occasionally address issues related to people younger than high school age.

Transition: For the work of the Subcommittee, transition is defined as the movement of young people with disabilities into employment. Activities promoting this movement must be based on an individual's self-determined preferences and interests. These activities should include, but not be limited to, lifelong learning, community experiences, and the development of a career path, health and wellness, and other post-school and adult living objectives. To accomplish this, it may be necessary to consider supports, related services, and other issues including: evaluation; planning; reasonable accommodations; access to adequate health care and insurance coverage; income supports; vocational training and rehabilitation; service learning; school, work-, and community-based experiences (paid and unpaid); and assistive technology.

Employment: For the work of the Subcommittee, employment is defined as regular engagement in skilled activities for payment.

Policy Issues

The Americans with Disabilities Act of 1990 (ADA) identifies equality of opportunity, full participation, independent living and economic self-sufficiency as key goals for persons with disabilities. Similarly, the Individuals with Disabilities Education Act (IDEA) aims to "stimulate the improvement of the vocational and life skills of students with disabilities to enable them to be better prepared for transition to adult life and services." The reauthorization of the Rehabilitation Act in 1998 echoed these goals by incorporating IDEA's definition of transition services and increasing the focus on vocational rehabilita-

tion services in the transition process for young people with disabilities.

Research focusing on progress toward these goals has revealed both troubling and encouraging indicators relating to transition from adolescence to adulthood and the world of work. Data generated through research, especially longitudinal research, illustrate both areas of progress and need. The Subcommittee reviewed a series of research and policy studies and conducted a series of "listening sessions" with stakeholders.

First, the Subcommittee examined the draft results of a review conducted in 1996 by the White House Domestic Policy Council on transition policy, titled *School-to-Work Transition: Disability Policy Review*. The Subcommittee also reviewed data from the Department of Education/Office of Special Education Programs' *1993 National Longitudinal Transition Study*; data analyses of beneficiaries from the Social Security Administration, and the Department of Education's participation rates of students with disabilities in postsecondary education.

The Subcommittee sponsored and participated in a series of "listening sessions" to solicit input from young people with disabilities, their families, educators, service providers and others about barriers faced by young people with disabilities' transitioning from adolescence to adulthood and work: These included a Town Hall meeting in Los Angeles sponsored by the Task Force, a roundtable discussion hosted by the National Council on Disability, a Youth Policy Forum sponsored by the Social Security Administration and the National Institute on Disability and Rehabilitation Research, a luncheon discussion at the National Council on Disability's Youth Leadership Forum, and a meeting of the Healthy and Ready to Work Federal Interagency Work Group. During the course of its work, the Subcommittee plans to continue its participation in these types of "listening sessions" to ensure that a broad base of input is incorporated into the work of the Task Force.

From these activities, several patterns emerge which should be considered for future policy development. First, the population of young people with

disabilities is growing and becoming more diverse. For example, according to the Census Bureau, there are 25.1 million Americans between the ages of 15-21 years of age, 12.1 percent of who have a disability or chronic health condition. Among 95 million people between the age of 24-44, almost 15 percent have a disability.

More importantly, this population is growing much more diverse, with significant rises expected in the numbers of African, Native, Asian and Hispanic Americans with disabilities. According to data from the Survey of Income and Program Participation (1993), an ongoing, nationally representative panel survey of the economic status of the non-institutionalized, civilian population living in the U.S., the overall rate of disability is highest for Native Americans (21.9%), followed closely by African Americans (20.0%), whites (19.7%), Hispanics (15.3%), and Asians and Pacific Islanders (9.9%).

For women with disabilities, the situation is worse. Of the total population of adults with disabilities, men are twice as likely to be employed, are more likely to work full-time, and, on average, receive higher wages. The barriers faced by all women in the workplace are compounded for women, of all ages, with disabilities. The "double discrimination" of being a woman with a disability is evident in all aspects of employment, including the employment-related programs provided to individuals with disabilities.

Second, access to health care, insurance coverage, and income supports present barriers to employment for young people with disabilities. While rapid advances in medical science have enabled over 90 percent of children born with special needs to reach adulthood, youth with special health care needs are much less likely than their non-disabled peers to finish high school, pursue postsecondary education, get jobs, or live independently. Few coordinated services have been available to assist them in their developmental transitions from school to work, home to independent living and pediatric-based care to adult-based care.

Current Supplemental Security Income (SSI) and Medicaid benefit systems also create barriers to employment. Nearly 600,000 young people

between the ages of 18 and 25 currently receive SSI benefits. Of those, only 10 percent report some form of work activity. Each year, 16,000 18-year-olds and 56,000 individuals between 19 and 25 years of age are approved for SSI benefits. In addition, data from the U.S. Census Bureau indicate that almost 80 percent of individuals ages 22-44 who do not have disabilities have private insurance coverage, three percent have public insurance and 17 percent are uninsured. In contrast, in the same age group, among individuals with disabilities almost 58 percent have private coverage, 22 percent have public insurance and almost 20 percent are uninsured.

Data indicates that many young people with disabilities are dependent on Federal income support and public health insurance benefits. Promoting greater self-sufficiency among beneficiaries cannot be achieved without eliminating work disincentives. The possibility of losing health insurance and other crucial benefits discourages many from seeking work. Further, for those who are employed, opportunities to increase wages and earnings may be avoided for fear of losing these benefits. As the system currently exists, many potential workers remain unemployed and dependent, not because of laziness or indifference, but because working is simply not in their best economic or medical interests.

Third, technology is transforming opportunities for young people with disabilities. Assistive technology, distance learning, and the Internet are among the technological innovations that are significantly transforming the workplace and lifelong learning opportunities for young people with disabilities, and will continue to do so at a rapid rate into the next century.

Fourth, education, vocational rehabilitation, and workforce development efforts are signaling the transformation of programs designed to serve people with disabilities. Nowhere is this trend more noticeable than in policies dealing with young people with disabilities. In the education arena, for example, the trend is toward increasing expectations and academic skills, and including young people with disabilities in all aspects of general education reform, as reflected by the Individuals with Disabilities Education Act Amendments of 1997,

Goals 2000, Improving America Schools Act, and the School-to-Work Opportunities Act.

Another example of the general systems reform trend is demonstrated by the Workforce Investment Act of 1998 (WIA). The WIA brings a new emphasis on how youth are served within the workforce development system. WIA's major services for young people include: (1) the establishment of local youth councils; (2) comprehensive services based on individualized assessment; (3) youth connections and access to the One-Stop Career Center system; and (4) performance accountability. The Department of Labor's publication, *The Workforce Investment Act of 1998: A Vision for Youth*, specifically mentions young people with disabilities as a specific target population under WIA. Federal policy efforts must ensure that young people with disabilities are included in the opportunities that WIA presents.

In addition, as a part of WIA, the Rehabilitation Act was amended with increased attention focused on transition. In addition to adding a definition for transition services, WIA mandates that State vocational rehabilitation plans include coordination with responsible State education officials to facilitate the transition of youth with disabilities from education to vocational rehabilitation services. State plans must include interagency agreements that provide information about technical assistance for education agencies, personnel training, agency financial responsibilities, outreach, and student identification policies and procedures.

Fifth, there is a tremendous need to improve planning and delivery of transition services. While some individuals with disabilities appear to have better transition outcomes, others do not. According to the Department of Education, 20 percent of young adults with disabilities do not graduate from high school, compared to 9 percent of young adults with no disabilities. Approximately 23 percent of young people without disabilities have graduated from college, as compared to less than 10 percent of young people with disabilities and only 6 percent of young people with significant disabilities. Youth and young adults with severe emotional disturbances, for example, experience particularly poor outcomes.

The IDEA Amendments of 1997 further strengthened transition programs. For example, the law emphasizes the need for transition planning to begin earlier (at age 14) and mandates that young people know their rights and exercise self-determination and choice in program selection and design. This is critical as findings from the Office of Special Education Programs' monitoring of State educational systems show a frequent lack of transition planning in the Individualized Education Program (IEP) process. As a result, too many young people never receive the counseling, career education, vocational training, assistance in obtaining adult health care, and adequate insurance and other services they need to make successful transitions from school to work, or school-to-college-to-work.

We also know that as the level of education rises, so does labor force participation, and these rates increase much more sharply for people with disabilities than those without disabilities. For example, among people 25-64 years of age who have a disability, only 16 percent of those with less than 12 years of education are working or looking for work. The rate rises to 27.3 percent for those who complete 12 years of school, increases again to 40.9 percent for those with 13 to 15 years of education, and reaches 50.6 percent for people with 16 or more years of education. Increasing academic skill expectations and expanding lifelong learning opportunities are critical aspects of future success for young people with disabilities.

The transition needs of young people with disabilities require appropriate services according to individualized needs. However, data show that consumer-driven services are elusive:

- Only a third of young people with disabilities who need job training actually receive such training.
- Only a fourth of young people who need life skills training, tutoring, interpreting or personal counseling receive these services.
- Contacts with vocational rehabilitation agencies, postsecondary institutions, job placement programs, employers, social service and mental health agencies are substantially less frequent for students with serious emotional disturbances.

- Within three to five years after exiting school more than half of all young people with emotional disturbances are arrested at least once.

The absence of needed services and the bleak outcomes of many young people underscore the need for effective policies and programs. How to improve service delivery for all young people with disabilities is therefore a fundamental policy question.

Students with disabilities want better education and training opportunities to help them prepare for employment and independent living. To keep pace with the ever increasing technical skills required by the job market, more individuals with disabilities are taking advantage of postsecondary education than ever before: In 1978, the percentage of full-time college freshman reporting disabilities was 2.6 percent; in 1991, this figure more than tripled to 8.8 percent. Still, there is much room for improvement.

Studying progress and pitfalls helps us better understand the complexities of transition for young people with disabilities. By learning from these, educated choices may be made to improve transition service delivery and to assist all young people in attaining the national goals. The needs of young people with disabilities transitioning from adolescence to adulthood are great: Issues of coordination, accountability and access must be addressed to promote positive transition outcomes, and the Federal government's leadership role must be asserted to ensure that all means all.

If post high school academic and employment outcomes are to improve, effective transition strategies and activities must occur for all young people with disabilities. Only then will the goals of equal opportunity, full participation, independent living, adequate health care and insurance coverage and economic self-sufficiency become a reality.

Current Activities

The Subcommittee's initial task was to share information among the participating agencies in order to identify innovative programs and practices, possible duplication, and gaps. The following briefly summarizes current agency activities:

Department of Education

Office of Special Education and Rehabilitative Services (OSERS) and National School-to-Work Office:

- *Transition Technical Assistance.* The National Transition Alliance (NTA) has identified promising programs and practices from across the country which promote the transition of youth with disabilities towards desired post-school outcomes. The NTA provides technical assistance to School-to-Work State grantees and disseminates information regarding transition and school-to-work issues nationwide.

Office of Special Education Programs (OSEP):

- *Model Demonstration.* Since 1985, OSEP has funded over 300 secondary education model demonstration and outreach projects that develop, implement, evaluate, and disseminate new or improved approaches for serving the needs of students in high schools, and emphasize school-based learning activities that are linked to occupational skills standards and challenging academic standards.

Self-Determination. Another of OSEP's sustained efforts is in the area of self-determination. This effort has demonstrated that, with appropriate guidance, students are clearly capable of participating in planning and decision-making regarding their futures. Self-determination is the ultimate goal of education.

- *Systems Change.* In 1991, OSEP initiated a special grants program, specifically intended to make available one-time, five-year grants to individual States for the purpose of establishing responsive State systems that address the school-to-work transition needs of young people with disabilities. These grants are intended to assist States in developing effective strategies and procedures for implementing new requirements for transition services included in the IDEA Amendments of 1997. To date, each State has received a five-year systems change grant.

- *Information Dissemination.* OSEP funds the HEATH Resource Center, the national clearinghouse on postsecondary education for individuals with disabilities, to assist in the transition from school to college.

Rehabilitation Services Administration (RSA):

- *Systems Change.* Building on lessons learned from the OSEP Transition Systems Change projects, RSA recently funded State Systems Change projects focusing on improved employment outcomes for individuals with disabilities. These projects address the systemic barriers that persons with disabilities face when seeking employment, particularly those who participate in Social Security programs. Most of these six projects include emphases on youth and young adults with disabilities.
- *Special Projects.* A number of RSA's special projects target youth and young adults with disabilities. For example, Project RISE in Spring Lake Park, Minnesota has developed a transition and supported employment model program for transitioning students that addresses their employment and independent living needs. The model emphasizes coordination among businesses and State and local agencies that provide transportation, mental health services, and employment services for students with disabilities. Partners for Youth With Disabilities, Inc. of Boston, Massachusetts has an entrepreneurship program for youth with disabilities using a multi-tiered approach of classroom instruction, mentorship, and business community development in order to assist youth with disabilities in transition.
- *Attention to Diverse Needs.* RSA has provided support for persons from diverse racial and ethnic groups, as demonstrated by implementation of the Indian Employment, Training and Related Services Demonstration Act of 1992. This was one of two major programs designed to address the high rates of unemployment for American Indians with disabilities. The initial program demonstrated how Indian tribal governments could integrate the employment, training and related services they provide in order to improve

the effectiveness of those services, reduce joblessness in Indian communities and serve tribally determined goals consistent with the policy of self-determination. More recently, the "Section 121 projects" (formally known as Section 130 under the Rehabilitation Act of 1973 as amended) have sought to reduce the continuing high rates of unemployment on reservations. Data from 1996 shows that RSA funded 32 projects. In 1999 RSA expected to provide 28 additional grant awards, which may include successful continuing, as well as new projects.

RSA also supports Capacity Building for Traditionally Underserved Populations, another program to improve services provided under the Rehabilitation Act. This program targets services provided to individuals from culturally diverse backgrounds, and provides outreach and technical assistance to Indian tribes and other entities working with culturally diverse groups to enhance their capacity and promote their participation in activities funded under the Rehabilitation Act. The 12 recent awards provided grants to State and public or private nonprofit agencies and organizations, including Indian tribes and historically black or Hispanic institutions of higher education serving traditionally underserved racial and ethnic groups.

National Institute on Disability and Rehabilitation Research (NIDRR):

- *Rehabilitation Research and Training.* NIDRR supports Rehabilitation Research and Training Centers (RRTC) that directly and indirectly benefit transitioning young people with disabilities. Some of these focus on mental illness, supported employment, community living, and employability. The RRTC at the University of Hawaii, the National Center for the Study of Postsecondary Educational Supports, focuses specifically on postsecondary educational supports for students with disabilities.

Office of Postsecondary Education (OPE):

- *Demonstration Projects.* OSERS and OPE have provided important technical assistance to shape the new "Demonstration Projects to Ensure Stu-

dents with Disabilities Receive a Quality Higher Education." This \$5 million program focuses on the development of education models for students with disabilities, and at least two awards will target the needs of students with learning disabilities specifically. Activities include developing innovative teaching strategies (including distance learning and assistive technology), synthesizing research, professional development and training, evaluation, and dissemination. The overall purpose of these demonstrations is to increase postsecondary faculty awareness and preparedness so that students with disabilities receive the accommodations and supports necessary for quality educational experiences.

- *Attention to Diverse Needs.* The population of young people with disabilities is growing much more diverse. While significant rises are expected in the number of Asian and Hispanic Americans with disabilities, increased attention will also need to be given to the needs of African American and American Indian youth with disabilities. High school counselors, teachers, other staff and community members must be prepared to provide culturally appropriate guidance to these students, as they provide guidance and access to resources that will facilitate successful transition to postsecondary education for all young people. Support has historically been provided to students from diverse cultural groups, students with disabilities, and disadvantaged students through special programs designed to benefit underserved populations. Recent Federal legislation provides additional assistance through the Higher Education Amendments of 1998 (HEA). The intent of HEA is to improve outreach to students and strengthen linkages to employment and secondary education programs. HEA also continues to improve educational opportunities through the TRIO Programs (Educational Opportunities for Low-Income and Disabled Americans) and the Fund for the Improvement of Postsecondary Education (FIPSE) programs. The FIPSE and TRIO programs (including Upward Bound and Talent Search) have improved educational opportunities for all students, including opportunities that focused specifically on students with disabilities. HEA

builds on these successes and also includes the Gear Up Program, designed to increase early awareness and encourage all students to aspire towards postsecondary education.

Department of Labor

- *Youth Opportunity Grants.* The Employment and Training Administration (ETA) will award competitive grants under the Youth Opportunity initiative in January 2000. The Workforce Investment Act specifies that Youth Opportunity grants are to be used to increase the long-term employment of youth who live in empowerment zones, enterprise communities, and high-poverty areas. These projects will develop high-quality programs that help individual youth find better jobs and increase their educational attainment, and achieve community-wide increases in youth employment rates and educational attainment. Young people with disabilities are included in the target population to be served by these grants.
- *Demonstration Projects.* DOL's 15 Disability Employment Grants spur innovation, coordination and quality outcomes for improving employment outcomes for individuals with disabilities. Many of these projects address the needs of youth and young adults with disabilities.

Department of Health and Human Services

Maternal and Child Health Bureau (MCHB) of the Health Resources and Services Administration (HRSA):

- *Healthy and Ready to Work (HRTW).* The HRTW initiative (1) focuses on young people with special health needs and the transition to adulthood and (2) promotes wellness and improved access to appropriate health care. This includes moving from the pediatric to adult health care system and reducing health crisis episodes so youth can optimize their transition from secondary to post-secondary education, employment, and self-sufficiency. Through HRSA's Special Projects of Regional and National Significance funding mechanism, MCHB has implemented nine demonstration projects

addressing transition for young people with special health care needs and funded a national center to provide technical assistance to the projects and to State programs, and to promote inter-agency partnerships on the Federal level.

The projects are reporting outcome information in categories corresponding to six national MCHB performance measures that assess the health and well-being of children with special health needs, including issues such as employment status, access to a medical "home" (not a place, but a system of services that is community-based, culturally competent, comprehensive and continuous) and a source of health insurance.

Administration on Developmental Disabilities (ADD):

- *Data Collection.* ADD funds three ongoing data centers, one of which provides comparative data by State on costs and outcomes associated with the employment of people with developmental disabilities.
- *Employment and Temporary Assistance to Needy Families.* ADD funded a three-year technical assistance project to improve access to employment under TANF for people with developmental disabilities.
- *Self-Determination.* A three-year nationwide project to improve self-determination for persons with developmental disabilities has been funded by ADD.
- *Family Support.* ADD funded 22 States (over \$4 million) to establish Family Support Systems Change projects to develop a comprehensive system of family support services. The projects focus on helping children achieve independence, productivity, inclusion, and integration by ensuring that families are supported in raising their children with disabilities at home.

Social Security Administration

In 1999, SSA announced a new, three year pilot project, known as the "Youth Continuing Disability Review Initiative," in which the particular needs of

250 young people (aged 15 to 17) per year will be examined soon after their supplemental security income (SSI) disability review process is completed. After conducting enhanced assessments, the participants will be referred to the State Vocational Rehabilitation agencies, the Department of Labor employment programs (in particular the school-to-work system), Department of Health and Human Services programs, and other agencies for services and interventions, as appropriate. From this three year pilot project, SSA will examine the impact of an early and more proactive approach on the successful transition of young people from school, and the SSI rolls, to work. SSA expects this initiative to: inform young people and their families about work incentives and work; motivate and assist them in transitioning to work; increase independence and decrease dependence on public benefits; and inform SSA operations and policy development.

President's Committee on Employment of People with Disabilities

The President's Committee operates four youth-focused programs designed to foster both the career development and leadership skills of young persons with disabilities.

- *Workforce Recruitment Program.* Each year, 100 trained recruiters are sent to approximately 140 colleges and universities, all across the country, to interview over 1,500 college students with disabilities. Each student interviewed is evaluated and a descriptive narrative is prepared. In the early spring of each year, a listing of all these students is released to employers who either have pledged to hire these students for paid summer internships, or who are actively recruiting job applicants with disabilities for both paid summer internships or full-time employment. This program is designed to facilitate contact between college students with disabilities and interested employers.

- *High School/High Tech (HS/HT).* There are presently over 60 HS/HT programs in 20 states across the country. HS/HT is an enrichment activity designed to provide special education students with experiences, mentors and paid intern-

ships in technology-related occupations. Through these activities, students are challenged to expand their ambitions and to seek post-secondary education as well as careers in technology-related fields. Local HS/HT programs represent a coalition of community organizations, employers and school systems, all working together to provide these activities. HS/HT is a dramatic way to break down stereotypes and to offer an extracurricular activity that affords students alternative ways to find their potential.

- *Youth Leadership Forums.* In the summer of 2000, 25 state-level conferences for high school age students with disabilities are being planned to provide each state's participants with career and leadership skills development. Participating students are afforded the opportunity to share experiences and ideas with other students with disabilities and, thereby, grow in self-awareness and community spirit. The goal of this effort is to impact these students' futures as well as prepare the next generation of disability leaders. The five-year goal of this annual program is to bring this program to each of the 50 states.
- *National Youth Leadership Conference.* With the support of key federal agencies, the President's Committee holds an annual National Conference in Washington, D.C. This four day program is led by young people with disabilities and offers them programming in the areas of civil rights, empowerment and career planning.

Recommendations

Subcommittee Recommendations

The Subcommittee recommends the following six actions be addressed by Federal agencies or funding sources. These recommendations can be implemented through budget authority or by interagency work groups. The Subcommittee will continue to examine policy options and to formulate recommendations to align and improve Federal programs

for young people with disabilities (see "Future Issues," below).

1. ***Expand Internship Opportunities.*** The Subcommittee will work to expand existing Federal government internship opportunities for young people with disabilities, such as the Workforce Recruitment Program for People with Disabilities and the High School-High Tech Program, both run by the President's Committee on Employment of People with Disabilities. Other opportunities should also be expanded for young people with disabilities, such as the Presidential Management Internship Program, White House and other agency fellowships and internships, and the high school summer intern jobs program. In addition, we recommend that public-private sector partnerships be created to develop new internship opportunities and to expand existing internship opportunities for young people with disabilities with an emphasis on leading technology industries.
2. ***Increase Participation in Postsecondary Education.*** The Subcommittee is developing an initiative to stimulate higher participation rates of young adults with disabilities in postsecondary education. This will be done, in part, by emphasizing the need for lifelong learning for people with disabilities, stimulating greater participation of vocational rehabilitation consumers in postsecondary education, and focusing intensive efforts on young people who receive Social Security and Supplemental Security Income (SSI) disability benefits.
3. ***Improve Social Security Work Incentives.*** The Subcommittee recommends that the Social Security Administration explore fiscally sound options for regularly increasing the Substantial Gainful Activity (SGA) level, with an emphasis on young adults with disabilities transitioning into employment. We also recommend that SSA pursue necessary legislative and regulatory changes to increase the age limit and the amount of the SSI Student Earned Income Exclusion.
4. ***Increase Leadership Development Opportunities.*** The Subcommittee will work to

coordinate and expand a Federal interagency National Youth with Disabilities Leadership Development Program funding priority.

5. ***Include Youth Goals in Healthy People 2010.*** The Subcommittee recommends the inclusion of a target goal for Healthy People 2010 dealing with young people with disabilities and transition. Medical practices and health care services must be delivered in a way that empowers young people to take progressively increasing control of managing their own health care.
6. ***Coordinate Research, Demonstration and Training Activities.*** The Subcommittee is examining strategies to coordinate various research projects being implemented by agencies. These include the Department of Education's second National Longitudinal Transition Survey, the Social Security Administration's survey of children who receive SSI, and the Department of Labor's military aptitude study and youth opportunity study. The Subcommittee believes it important to assure that these surveys are asking the appropriate research questions in order to help policymakers better understand the barriers faced by young people with disabilities. The differing goals and strategies for developing these surveys will affect the degree to which such coordination can be achieved. Nevertheless, interactions between sponsoring agencies will enhance the effectiveness of the surveys in answering important questions for young people with disabilities.

Youth Policy Work Group Recommendation

Of specific import to the work of the Subcommittee was input from young people. For example, significant input was obtained from the annual Social Security Administration and NIDRR employment conference in July 1999. This conference, which the Subcommittee co-sponsored, focused primarily on issues related to transitioning young people with disabilities to adult health care, employment and independence. One of the major activities of the conference was to create a Youth Policy Work Group, comprised exclusively of young people with

disabilities, who were charged with taking the results of the conference and making policy recommendations to the conference sponsors.

The Youth Policy Work Group submitted a proposal for a "Voluntary Social Insurance Life Voucher System," a consumer-controlled vehicle for accessing needed supports for maximum independence. This includes, but is not limited to, education (elementary, secondary and postsecondary), access to adequate health care and insurance coverage, employment, housing, transportation, income supports, and technology and assistive devices.

The Voluntary Social Insurance Life Voucher System would be a program in which young people voluntarily apply and are given the opportunity to write their own budgets and ongoing "future plans" for their needed supports. In these plans, individuals, possibly with the assistance of others, would look at (1) what supports they will need annually, and (2) what supports they could acquire on their own which would require no financial assistance, such as a circle of support from friends and family. Individuals would submit their proposals for the dollars of services they would require to be equal to non-disabled peers. The financial portions could include educational supports, housing and transportation, vocational training and support, access to adequate health care and insurance coverage, as well as any other supports necessary to achieve an ultimate goal of self sufficiency.

Once a plan is approved, it would be managed by the person with a disability. If there were any changes, amendments could be made through quarterly reviews. The benefit of this idea is that it would have positive effects on the competitive market. For example, education would be forced to improve when individuals could take their dollars and receive education at the institution of their choice at any age.

Plans could be contained in a "credit card" in which individuals access their money, as well as look at their long-term life plan budget and narrative. The Youth Policy Work Group believes that this system could possibly be maintained by a corporate entity, such as Visa or MasterCard, in lieu of

the existing social service system. The existing systems (e.g., Social Security, Vocational Rehabilitation, Public Health, Medicaid, Public Assistance, Special Education) would work together to assist individuals in identifying the dollar amounts and supports to create successful life plans which are flexible and change over time. Additionally, these systems would pool program dollars into a common fund in which there was one application. Eligibility for different supports would be based on medical and financial needs.

This proposed model changes the direction of programs that "take care of" individuals by using public financial supports for a lifetime. Supports would be only those that were necessary and useful toward the person's ultimate life goals. All individuals would have to give back to this system, possibly when reaching a certain age, by being engaged in meaningful work activity, whether paid or volunteer. Since work activity in this model is mandatory, it would operate under the assumption that *all* people can contribute to their communities. When a person acquires paid employment, premiums would be paid into the voucher system.

The Youth Policy Work group believes that this system would support and encourage people to work and contribute to their communities, as well as achieve valuable experience toward chosen life goals. Under this model, all individuals would have to show productive activity. Life plans and personal activity would need to display a commitment toward achieving self-sufficiency. This system is an investment in people and their futures, not only by the system but by the individuals involved. Everyone is vested in the ultimate outcome: productive, tax-paying citizens.

While this proposal raises as many questions as it answers, it reflects the frustrations, fears and values of today's young people with disabilities. The Subcommittee believes it is significant that so much of the Youth Policy Work Group's proposal focuses on the themes of system collaboration and coordination, self-direction, consumer control and choice.

Future Issues

The Subcommittee has developed a growing list of issues to devote its attention, and that of the Task Force, over the next three years. As a follow-up to this report, the Subcommittee will develop a plan for addressing these critical issues:

Research

- Coordinate interagency research agenda, such as longitudinal studies.
- Examine and synthesize "Best Practices" and study the use of social marketing to design an awareness campaign to publicize and to replicate proven practices.

Policy Development

- Examine and develop a "Memorandum of Understanding" between the Department of Education, Department of Labor, the Social Security Administration, Administration on Developmental Disabilities, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Services Administration for policy guidance and coordination to State and local agencies regarding youth transition services and programs.
- Investigate how implementation and monitoring efforts at the Federal level will strengthen enforcement of existing laws, including Title V of the Social Security Act, IDEA and the Rehabilitation Act, and how these efforts can assist States in strengthening enforcement at the local level.
- Develop a comprehensive initiative focused on young people in foster care receiving SSI benefits to expand the Federal Independent Living Program, offer economic support, provide access to adequate health care and insurance coverage, and create a transitional living program.
- Create a fiscally sound grants/budget initiative within the Departments of Health and Human Services, Education, and Labor, and the SSA to increase the delivery of assistive technology, including state of the art computer equipment, to transition-age students.

- Formalize the Healthy and Ready to Work Federal Interagency Work Group through a Presidential Directive or legislative change, with clear responsibilities and authority for the appropriate Federal agencies to work together around the issue of young people with disabilities transitioning to adulthood and independence. A corollary is the Federal Interagency Coordinating Council for Young Children with Special Needs that is mandated under the Department of Education's legislation.
 - Conduct a review of all Federal agency goals under the Government Performance and Results Act (GPRA), identifying those that apply to the needs of young people with disabilities in transition and examining where there is overlap, opportunities for coordination, and gaps.
 - Investigate fiscally sound mechanisms, through a demonstration project or legislative change, to require the Maternal and Child Health Programs for Children with Special Needs to work with the schools and the State vocational rehabilitation agencies, to prepare young people before age 16 so they will have received the services they need to help them be good candidates for vocational rehabilitation services and real jobs for real pay, with benefits.
 - Develop a mechanism to allow the blending of Federal funding when it is for the same purpose, so that funding "follows" individuals with disabilities and allows them to obtain the services they need with less bureaucratic red tape, more consumer choice and greater satisfaction.
 - Institutionalize feedback from young people with disabilities into policy development and assure their participation in Federal, State and local policymaking.
- range of work-based learning opportunities for high school and college students with disabilities during the academic year by enhancing existing Federal government work-based learning programs, and where necessary, creating new opportunities for young people with disabilities.
- Create a "Get-to-Work" initiative focused on the large numbers of young people with disabilities who are still on Social Security and/or SSI disability benefits six months after completing college.
 - Develop and expand use of individualized accounts for young people with disabilities available through the Health Care Financing Administration.
 - Assure that health insurance incorporates the Title V requirement to develop a community system of services that provides health care through a medical "home" (not a place, but a system of services that is community-based, culturally competent, comprehensive and continuous).
 - Examine and develop initiatives which strengthen the critical role of family members in the transition of young people with disabilities. This effort could also examine the link between family involvement and self-determination, choice and consumer control.
 - Develop a National Youth Mentoring Program in partnership with State and local government and private sector employers.
 - Examine how Federal programs serving young people with disabilities can be enhanced to increase and integrate academic and career development skill outcomes critical to successful transition results.

Program Development

- Support and reinforce the goal expressed in the recently released Office of Personnel Management's report, *Accessing Opportunity: The Plan for Employment of People with Disabilities in the Federal Government*, to expand the full

Public Awareness, Technical Assistance and Training

- Launch a public relations campaign to increase student, parental and provider expectations of young people with disabilities.

- Investigate methods for effectively reaching underserved populations, including those with low literacy levels, non-English speakers, those who speak English as a second language, and those without access to the Internet.
- Conduct a *Transition Summit and Research Forum* for State and local educators (e.g., secondary, adult and postsecondary education), vocational rehabilitation professionals, workforce development providers, SSA staff, researchers, grantees, advocates, young people with disabilities and families to address transition services policy and implementation issues for the future.
- Work with the Department of Labor's Employment and Training Administration to develop a technical assistance, training and outreach campaign that assures youth with disabilities are properly served and participating in DOL's youth programs, including Job Corps, Youth Opportunities, School-to-Work, Year Round Youth, and Summer Youth.
- Direct the Department of Education to develop a model "Personal Learning Plan Guidance" that assists all students in receiving educational services and transitioning from school to work, or school to college to work.
- Build, expand and coordinate self-advocacy instruction for youth with disabilities.
- Develop training materials and programs for schools and community-based organizations to educate young people with disabilities about accommodations.
- Have accommodations follow individual from school, postsecondary education and into work.
- Emphasize the need to expand career preparedness and development in elementary and middle school years as well as during the early years of high school education.
- Develop a disability diagnostic tool(s) that can follow the person with a disability from early

assessment through the entire life span and multiple service delivery systems.

- Refine and publicize the Department of Labor's Youth2Work and "YO! Movement" Web sites and use them as vehicles to disseminate information on young people with disabilities in transition.

Conclusion

Based on the Subcommittee's activities and input from stakeholders, several themes emerge: raising expectations; family involvement; employer involvement; changing demographics; and connecting and strengthening access to adequate health care and insurance, education, vocational rehabilitation and workforce development, and work incentive reform efforts.

It is imperative that specific strategies be examined and implemented to change expectations for young people with disabilities. The Subcommittee will develop innovative strategies to work with families and service providers around expectations and to widely promote a message about increasing expectations for young people with disabilities. Another theme is the crucial role of family members in the successful transition of young people with disabilities. Balancing the role of families with the emerging role of young people in determining and choosing their own road to transition and independent living will be addressed.

Employers, both large and small, are increasingly raising concerns that many young people do not have the necessary entry-level skills (academic, vocational, and employment) to be successful on their first job. Public-private partnerships with a variety of employers will be initiated in order to expand and increase the full range of work-based learning opportunities for young people with disabilities.

The Subcommittee is committed to addressing the theme of changing demographics and increasing diversity of young people with disabilities and how current Federal programs are meeting the needs of a

changing, and more diverse, population. This issue will be discussed in greater detail in future reports.

Finally, the Subcommittee continues to assess health, education, vocational rehabilitation, work-force activities, and work incentive reform efforts. We are looking at how strengthened enforcement of existing laws, coordination of general system delivery activities, and improved use of work incentives can improve transition results and ensure that young people with disabilities access, participate, and benefit from these important programs. The Healthy and Ready to Work Federal Interagency Work Group will be crucial to this assessment and resulting Federal activities.

The issues facing young people with disabilities who need to transition into the workplace are immense. They face multiple barriers — low family and provider expectations, poor self esteem, lack of educational and vocational supports, inadequate service delivery/coordination, and health care and income support disincentives. The Subcommittee is raising all of these issues in an informed, research-based approach to problem solving. It will craft a coherent national policy addressing the needs of young people with disabilities that the Task Force can adopt and promote.

We refuse to throw another generation of young people into a welfare-like dependency system of public benefits. We must instill a strong sense of personal worth and responsibility, self-direction and independence, personal productivity and self-sufficiency in future generations of young adults with disabilities.

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Members of the Subcommittee on Expanding Employment Opportunities for Young People with Disabilities

Co-Chairs:

Sue Swenson, Commissioner
Administration on Developmental Disabilities,
Department of Health and Human Services

Curtis Richards, Deputy Assistant Secretary
Office of Special Education and Rehabilitative
Services, Department of Education

Agency Members:

Department of Education:
Office of Special Education and Rehabilitative
Services — Rehabilitation Services Administration
and Office of Special Education Programs; Office
of Postsecondary Education; Office of Bilingual
Education and Minority Language Affairs; Office
of Adult and Vocational Education

Departments of Education and Labor:
National School-to-Work Office

Department of Health and Human Services:
Office of Family Assistance; Maternal and Child
Health Bureau; Division of Services for Children
with Special Health Needs; Office of Civil Rights;
Substance Abuse and Mental Health Services
Administration; Office of Community Services

Department of Labor:
Employment and Training Administration —
Office of Disabilities Initiatives and Office of
Youth Programs; Women's Bureau

National Council on Disability

*President's Committee on Employment of
People with Disabilities*

Social Security Administration:
Disability and Income Security Programs —
Office of Employment Support Programs; Office
of Policy



Speeches and Testimony

Prepared Testimony of
Deputy Secretary Frank S. Holleman III
U.S. Department of Education

Before the
Subcommittee on Oversight and Investigations
Committee on Education and the Workforce
U.S. House of Representatives

March 1, 2000

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to appear today. I appreciate the opportunity to share my views on the financial management of the U.S. Department of Education.

Secretary Riley and I are strong believers in the potential of the Department's programs to improve American education, help all children reach high standards, and open the doors to college. We emphasize strong management because we want to be sure that the federal investment in education is used as efficiently and effectively as possible.

When Secretary Riley took office in 1993, he assumed the reins of an agency whose senior leadership had long focused on external policy agendas at the expense of day-to-day management. Over the last seven years, he has led an effort to hire skilled managers and technical staff, improve data quality, and modernize accounting systems and procedures. Our management improvements have achieved savings that could fund our administrative budget many times over.

For instance, seven years ago 22.4 percent of students entering repayment defaulted on their loans by the end of the following fiscal year. We have reduced this cohort default rate every year. It is now a record-low 8.8 percent, only 40 percent of what it was at the beginning of this Administration. At the same time, collections on defaulted loans (including consolidations) have tripled from \$1 billion in Fiscal Year (FY) 1993 to over \$3 billion in FY 1999.

The Direct Student Loan program, proposed by President Clinton in 1993 and implemented in 1994, will save taxpayers an estimated \$4 billion over the life of loans made in the last five years (compared to the federal cost if direct loans had instead been guaranteed loans). Direct loans are generally less expensive for the federal government because there are no federal subsidies for lenders and interest earned on the loans accrues to the U.S. Treasury, instead of to private lenders.

The Department created the National Student Loan Data System, the Department's first comprehensive database of student aid recipients. This new tool has improved program management and informed policy-making. For example, it has allowed us to identify prior defaulters to schools and thereby help prevent ineligible students from receiving as much as \$1 billion in grants and loans.

Over the last seven years, the Department has sought to improve customer service and address longtime management weaknesses. We have only two-thirds as many employees as administered our programs in 1980, even though our budget has more than doubled. And since 1993, we have trimmed our regulations by one-third, reduced grant application paperwork, and aggressively implemented waiver authority for legal roadblocks to state reform.

In May 1998, we established the Education Publications Center, or ED Pubs, as a one-stop source for our publications and other information products. Customer service ratings for ED Pubs exceed those of premier corporations like Federal Express and Nordstrom.

We are working on a new Internet-based data collection system to better assess the results of our programs and initiatives. We recently successfully tested the concept with the Council of Chief State School Officers and the states of Nebraska and Oregon. Under the Integrated Performance and Benchmarking System (IPBS), each state will maintain a database of defined core data and performance indicators. The Department will have electronic access to these databases, minimizing the reporting burden on states and enabling speedier information collection.

The Department's Office for Civil Rights is resolving discrimination complaints more efficiently, thanks to dedicated, well-trained staff; a new, team-based staffing structure; and investments in technology. In FY 1999, OCR resolved 70 percent more complaints than it had in FY 1990 with 10 percent fewer staff. More than 80 percent of the complaints in FY 1999 were resolved within 180 days of receipt.

We successfully met the Y2K challenge, bringing all 175 of our data systems into Year 2000 compliance well within the Office of Management and Budget's government-wide deadline of March 31, 1999. We met our goal even though, in August 1998, the Subcommittee on Government Management, Information, and Technology projected that we would not complete our work until at least 2030.

And we have a history of working cooperatively with Congress, the General Accounting Office (GAO), and our Office of the Inspector General (OIG). As a result, there are fewer than half as many open audits as there were six years ago.

We have also made a sustained effort to improve the financial management of our programs. Since 1993, we have sought to improve our data quality, modernize and integrate our systems, and improve financial reporting. In 1998, we completed implementing our new financial management system, the Education Central Automated Processing System (EDCAPS). And after devoting substantial resources to supporting the audit of our FY 1997 financial statements, we received an unqualified opinion on all three statements.

However, our preparation of the FY 1998 financial statements was delayed by the requirement that we prepare two new major financial statements; our first year using new standard ledger software, i.e. FARS; continuing data quality issues; and our intensive effort to support the audit of the FY 1997 statements. As a result, we accepted our auditor's recommendation to suspend work on the FY 1998 statements and received a disclaimer of opinion on each of them.

Today, the Department's Inspector General released our auditor's opinion on our FY 1999 financial statements. Our auditor, Ernst and Young, issued four qualified opinions and one disclaimer of opinion on the Department's five financial statements. The five statements prepared specifically for our Student Financial Assistance (SFA) programs also received four qualified opinions and one disclaimer.

Obviously, our goal is to receive an unqualified audit opinion every year. However, I am heartened by our substantial progress since last year; when our auditor could not express an opinion on any of our five financial statements. Our auditor was able to express an opinion on four of our financial statements because we have strengthened our financial documentation and data integrity. As a result, I believe this audit result validates our approach to improving the Department's financial management.

I am also pleased that the Department and our auditors were able to complete our work and release the audit on schedule - rather than nine months late, as occurred last year. We completed our work on time despite the need to prepare five additional financial statements for our Student Financial Assistance programs and a five-week delay in beginning the process.

Another sign of progress is our effort to implement our auditor's recommendations. As Inspector General Lorraine Lewis noted in her prepared testimony today, as of last December the Department had implemented only 28 of the 115 recommendations (including duplicates) made in the previous four audits. I have made the resolution of these recommendations a priority. We have now completed action on 40 additional actions and have asked for the OIG's concurrence that they are complete. The FY 1999 audit included an additional 24 recommendations - mostly related to prior recommendations to correct

previously identified weaknesses - and we will address them as expeditiously as possible.

Our goal continues to be to receive an unqualified audit opinion every year, as we did in FY 1997. Nonetheless, I am pleased that we are showing progress. Over the past 12 months, we have strengthened our financial management systems in five important ways.

First, we have improved our reconciliation process. Prompt and accurate reconciliation helps us detect and resolve potential errors.

Our new reconciliation software, Recon Plus from the CheckFree Corporation, automates the process by which our general ledger is reconciled with other Department systems - including those supporting the student loan programs and grant payments - and with the U.S. Department of the Treasury. Recon Plus permits automated reconciliation, rather than requiring the manual comparison of records with a spreadsheet, and thereby allows us to compare records more efficiently and in greater detail. We were greatly encouraged that, in an October test, Recon Plus automatically reconciled over 70 percent of transactions with Treasury. We hope to increase this match rate to 90 percent by this spring.

We are now reconciling our accounting records with Treasury cash balances monthly. Last year, we reconciled our records with Treasury quarterly and in previous years only annually. We are also increasing the frequency with which we reconcile our central accounting system with subsidiary records, such as those for the direct and guaranteed student loan systems.

Second, we have automated our processes to make them more efficient and effective. With assistance from PricewaterhouseCoopers, we developed and implemented software to automatically close our general ledger at the end of each fiscal year. This new process enables us to close our records more accurately and much faster.

We developed and implemented new software to automatically generate our financial statements. Last year, our staff relied heavily on spreadsheets to prepare our financial statements.

Also this year, we established an automated tool to track manual adjustments to our financial records. It is an accepted practice to correct errors identified by an audit, such as classifying a transaction on the wrong line. By automatically recording all such transactions in one place, we can better coordinate them and prevent errors.

Third, we have strengthened the documentation of and support for our financial data. We developed three subsidiary ledgers to support the general ledger. The three new ledgers reconcile our grant expenditures, match grant award available balances to undelivered orders, and align

our contracts payment system with accounts payable. Previously, the Department's core financial management systems received only a summary of this data. These new subsidiary ledgers will track the additional detail needed to support and validate financial data.

In addition, we have upgraded the personal computers used by the Department's accounting staff, enabling them to run more powerful reporting software. As a result, they can produce financial reports that are both faster and more thorough.

Fourth, we improved our processes to ensure the quality of our financial data. For example, the Department has established software routines, called standard accounting entries (SAEs), to make regular adjustments to our financial records. Unfortunately, in some cases these SAEs introduced errors. This year, we corrected impacted accounts and fixed our SAEs. In addition, we established procedures to run future SAEs at a transaction level, rather than an appropriation level, and to coordinate them across all five financial statements.

Standard government practice requires our financial statements to distinguish between goods and services purchased from federal agencies and other organizations to facilitate the production of the overall financial statements of the U.S. Government. Unfortunately, in the past Departmental records have sometimes misidentified the status of our vendors. This year, we examined each transaction to ensure that our financial records properly reflect the appropriate classification of our vendors.

We have also implemented formal procedures for Department staff to manually adjust our financial records. These procedures, which include a supervisory review, should substantially reduce the misclassification of data. Moreover, we should require fewer adjustments due to a stronger reconciliation process and the new requirement that adjustments be processed at a transaction level, rather than an appropriation level.

And finally, we are pursuing a new general ledger system. We are thoroughly reviewing and testing the capabilities of possible systems to meet our requirements. Our new general ledger system will be in place in 2001.

Our current general ledger system failed to meet our full performance expectations. We plan to implement a new accounting system that will be capable of producing an automated closing of the Department's books at the end of each fiscal year promptly and efficiently. More importantly, we expect the new system to allow us to produce and support timely and accurate financial statements as envisioned by the Federal Financial Management Improvement Act of 1996.

Secretary Riley and I recognize the importance of financial management. Unfortunately, there is no shortcut to establishing a sound,

comprehensive financial management system. We will continue to work hard. I believe the FY 2000 audit will demonstrate our continued progress.

I would be happy to answer any questions you may have.

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This page last modified March 2, 2000 (pjk)



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE FOR CIVIL RIGHTS

THE ASSISTANT SECRETARY

OCT 14 1993

To: All OCR Staff
From: Norma V. Cantú *Norma V. Cantú*
Re: OCR Strategic Plan

I am pleased to share with you the Office for Civil Right's Strategic Plan, which I have forwarded to the Deputy Secretary.

The strategic plan is OCR's contract with the Secretary of Education, providing the specific bases upon which our efforts will be measured. We are committed to creating a more proactive approach to ensuring equal access to quality education. We are also promising substantially less bureaucratic approaches to how we get our work done. Your energy, involvement and many, many fine ideas throughout the strategic planning process give me the greatest confidence in our ability to achieve these goals.

The strategic plan will guide all of our decisions. As we implement our plan, each of us should be able to link our daily work to OCR's goals and objectives. We should also be able to identify for elimination activities and approaches that are not moving us towards our goals. As an example of this, we have discontinued the Bi-Weekly Update on National Enforcement Strategy (NES) Complaints and Compliance Reviews, the Monthly Travel Cost Analysis System (TCAS), and the Weekly Travel Report. We must continually ask the question, is this the best way to achieve our goals?

I would like to mention two major initiatives already underway. The first is the completion of a strategic plan for training, under the direction of Jim Littlejohn. The second is a substantial revision of our investigative procedures, to be coordinated by Cathy Lewis as she comes to Washington as the Detailed Regional Director. I am looking forward to hearing about changes implemented in each of OCR's components.

We are now working with the Secretary and with the other Offices of the Department to finalize the Department's Strategic Plan. This should be completed by November 1, at which time each office will receive copies of the entire plan.

Priority Areas
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Proactive, priority activities include high priority policy development, targeted technical assistance and high impact compliance reviews.

80 % of proactive resources will be dedicated to ensuring equal access to high quality, high standards education, for example:

Admissions/Testing;

Over-representation of minorities in special education;

Under-representation of women, girls and minorities in math and science;

Access to programs for LEP students.

10 % will be dedicated to racial and sexual harassment;

5 % to gender equity in athletics;

5 % to higher education desegregation.

US Department of Education
Office for Civil Rights

Our Mission is to Ensure Equal Access to Education
and to Promote Educational Excellence Throughout the Nation
through Vigorous Enforcement of Civil Rights.

1. Impact on Students' Lives

The Office for Civil Rights will maximize the impact of available resources on acute and real problems of civil rights in education. OCR commits itself to provide tangible assistance to the greatest number of students possible.

2. Empowerment of Students and Parents

The Office for Civil Rights will empower others to learn to solve their own problems of securing equal access to quality education. OCR will focus on systemic education reform that enables communities throughout the nation to understand, commit to and implement strategies that provide opportunities to learn for all.

3. Investment in People

The Office for Civil Rights will recruit and retain the highest calibre staff, and will develop the training and tools they need to become most effective. OCR will provide an environment that values participation, innovation and change. OCR will model diversity, fairness and concern for employee well-being.

OFFICE FOR CIVIL RIGHTS STRATEGIC PLAN

Office Mission

To Ensure Equal Access to Education and to Promote Educational Excellence Throughout the Nation through Vigorous Enforcement of Civil Rights.

Customer Definition

We serve student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights problems, including other Offices of the Department of Education.

Key Office Goals

First Goal: Impact on Students' Lives

Objective A: Proactive Targeting of Resources

Objective B: Strong Remedies for Effective Change

Objective C: Efficiency

Second Goal: Empowerment of Students and Parents

Objective A: Clearly Articulated Policy

Objective B: Promotion of Models that Work

Objective C: Outreach and Collaboration

Third Goal: Investment in People

Objective A: Motivated and Able Staff

Objective B: Use of Appropriate Technology

Objective C: Work Place Fairness

OFFICE FOR CIVIL RIGHTS STRATEGIC PLAN

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Customer Definition:

We serve student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights problems, including other Offices of the Department of Education.

Key Office Goals:

First Goal: Impact on Students' Lives

The Office for Civil Rights will maximize the impact of available resources on civil rights in education. OCR will consider as broad a range of input as practicable in the setting of its priorities to ensure that OCR addresses the most acute problems of discrimination. OCR will provide tangible assistance to the greatest number of students possible.

Objective A: Proactive Targeting of Resources

OCR will move from a reactive system of almost exclusively responding to complaints to a system of proactively targeting its resources for maximum impact.

Performance Measures: If OCR is successful, OCR will involve progressively more of its staff and monies in proactive measures; OCR will address the widely accepted real and acute problems in civil rights; and the gaps between majority and protected groups will close in the areas (substantive and geographic) in which OCR is active.

Short Term Strategies:

(1) OCR will as its top budget priority work to ensure that 40 % of resources are dedicated to proactive measures, including priority policy development, high impact compliance reviews, and targeted technical assistance (currently 11 - 12 % of OCR resources are dedicated to proactive measures).

(2) A team of regional and headquarters staff will develop a system for priority ordering of complaints for investigation.

(3) OCR will involve beneficiary representatives, advocacy groups and experts in its targeting efforts. This will include expert review of survey data.

Long Term Strategies:

(1) OCR will develop a LAN-based system for cost based accounting, in order to ensure that its resource allocation is mission driven.

Objective B: Strong Remedies for Effective Change

OCR will effect positive change through uniformly strong remedies to civil rights violations. Remedial action will make injured parties whole, lessen the chance of future violations, and set a clear precedent for other parties. It will be taken at the broadest appropriate level, for instance, at the state rather than the local level.

Performance Measures: If OCR is successful, OCR remedial plans will compare favorably with its own past remedies and those achieved by other federal agencies and private litigants; monitoring of agreements will show that they are durable in the cases of violations found as well as instructive for future action; and OCR decisions will be cited and followed by other parties or deciding agencies.

Short Term Strategies:

(1) OCR will develop Expert Teams in its top priority substantive areas. These teams will facilitate the use of strong remedial models for OCR.

(2) OCR will review remedies as part of its Quality Review program.

(3) OCR will solicit external appraisals of its remedial plans.

Long Term Strategies:

(1) OCR will develop systems to involve beneficiary representatives in the development and monitoring of remedial plans.

(2) OCR will collaborate with the Department of Justice and other agencies to provide more prompt and effective remedial action.

(3) OCR will develop proposals for remedial powers other than complete defunding of recipients.

Objective C: Efficiency

OCR will eliminate practices and procedures that do not add value or do not contribute to the fulfillment of OCR's mission. OCR will develop new approaches to maximizing the impact of existing resources. This will require creativity and innovation from all OCR components.

Performance Measures: If OCR is successful, OCR action will be progressively faster, and will occur before problems are moot. Progressively fewer OCR dollars will be spent on investigations that yield findings of no violation. OCR will make positive changes in progressively more students' lives.

Short Term Strategies:

- (1) OCR will develop approaches to eliminate current case backlogs.
- (2) OCR will substantially revise its Investigative Procedures Manual to provide for faster, more flexible and less bureaucratic handling of complaint investigations.
- (3) OCR will re-invent its Magnet School and state Vocational Education review programs.
- (4) OCR will develop new approaches for collaboration with OSERS in order to provide recipients with a single set of standards and a single review for complaints alleging discrimination on the basis of disability.
- (5) OCR will develop an appropriate basket of performance indicators to measure effective and efficient use of OCR resources.

Long Term Strategies:

- (1) OCR will pursue selective exhaustion of remedy requirements for appropriate issues and jurisdictions.
- (2) OCR will develop internal expertise at the national and regional level for Quality Management and continual process improvement.
- (3) OCR will develop new approaches for collaboration with OSERS in order to strengthen and certify state complaint procedures when discrimination on the basis of disability is alleged.

Second Goal: Empowerment of Students and Parents

The Office for Civil Rights will empower others to learn to solve their own problems of securing equal access to quality education. OCR will focus on systemic education reform that enables communities throughout the nation to understand, commit to and implement strategies that provide opportunities for all to learn.

Objective A: Clearly Articulated Policy

OCR will clearly articulate standards for equal access to education under Title VI, Title IX, Section 504 and Title II and the Age Discrimination Act. Policy will be readily understandable by the public and implementable by educational institutions. OCR will also advocate within the Department of Education to ensure that all employees understand equity issues and their implications for the Department's work.

Performance Measures: If OCR is successful, OCR will adhere to a published schedule to keep all policy up-to-date; OCR staff and educational institutions will know what is expected of them in light of published policy; and beneficiaries and their advocates will have the tools they need to confront their own problems of securing equal access to quality education. OCR will be a visible and consistent presence in the work of the Department, in particular in key legislative and policy initiatives.

Short Term Strategies:

- (1) OCR will develop Expert Teams in its top priority substantive areas. These teams will facilitate policy development and dissemination.
- (2) OCR will re-invent its process for policy development and dissemination to make it faster, more responsive and more inclusive of internal and external input.
- (3) OCR will adhere to a published calendar for policy development in top priority areas.

Long-Term Strategies:

- (1) OCR will develop and adhere to a regular calendar for regulatory review and policy development in each of its jurisdictional areas.

Objective B: Promotion of Models that Work

OCR will find, describe and promote models that work for civil rights compliance. OCR will concentrate on promoting effective systems and mechanisms that ensure equal access to education at the state level. Models should provide the earliest and most accessible resolution possible of civil rights conflicts.

Performance Measures: If OCR is successful, OCR will advocate models that are educationally vouched for, transferable to new situations, and systemic and preventative in nature. A growing number of mechanisms, especially at the state level, will promote equal access to education and provide speedy and fair resolution of civil rights grievances.

Short Term Strategies:

- (1) OCR will develop Expert Teams in its top priority substantive areas. These teams will facilitate the dissemination of model programs.
- (2) OCR will solicit external input for model plans for ensuring equal access to quality education.
- (3) OCR will develop a system of recognition of exemplary programs for civil rights in education.

Long Term Strategies:

- (1) OCR will collaborate with other components of the Department, in particular OERI, to identify and promote model plans for ensuring equal access to quality education.
- (2) OCR will seek to ensure that adequate funding is available to investigate and develop model plans for high standards in civil rights compliance.

Objective C: Outreach and Collaboration

OCR will become a partner to local beneficiary and advocacy groups and other entities, helping them help their communities understand, commit to and implement strategies that provide opportunities to learn for all through adequate information, technical expertise and back-up assistance.

Performance Measures: If OCR is successful, OCR information and technical assistance will be readily available and be clearly understandable by its audience. A growing number of local solutions that provided speedy and fair resolution of civil rights grievances will be implemented.

Short Term Strategies:

- (1) OCR will develop Expert Teams in its top priority substantive areas. These teams will facilitate the development and maintenance of relations with appropriate interest groups and institutions.
- (2) OCR will use focus groups to understand the interests and concerns of beneficiary and advocacy groups and other entities.
- (3) OCR will focus technical assistance on top priority areas and on fora where both beneficiary and recipient groups can work together.

Long Term Strategies:

- (1) OCR will collaborate with components of the Department to ensure a clear and coordinated approach to outreach.
- (2) OCR will develop a "train the trainers" program for technical assistance.

Third Goal: Investment in People -

The Office for Civil Rights will recruit and retain the highest calibre staff, and will develop the training and tools they need to become most effective. OCR will provide an environment that values participation, innovation and change. OCR will model diversity, fairness and concern for employee well-being.

Objective A: Motivated and Able Staff

OCR will invest in training that is relevant to job mastery and opportunities for staff, particularly in the substantive areas of civil rights. OCR will develop a comprehensive approach to training for individuals and OCR as a whole.

Performance Measures: If OCR is successful, OCR will plan, dedicate and allocate adequate resources for training. OCR will compare favorably in the hours and breadth of training for staff delivered annually with peer federal law enforcement agencies and private sector civil rights advocates. Training will be delivered according to plan and most staff will rate the training "excellent" in quality and "very relevant" to their work in OCR.

Short Term Strategies:

- (1) OCR will implement a comprehensive strategic plan for training, which will include an annual minimum training requirement for staff and adequate resource dedication for training.
- (2) OCR will collaborate with HMLC to ensure that OCR-supported training resources are available to all OCR staff.
- (3) OCR will establish a recognition system to reward and recognize outstanding contributions to OCR's mission.

Long Term Strategies:

- (1) OCR will collaborate with Department of Justice and other civil rights agencies and organizations to provide high quality and efficient training in civil rights.

Objective B: Use of Appropriate Technology

OCR will maximize its use of appropriate technology. OCR will make its policy, information and data analysis readily available for enforcement and promotion of civil rights in education.

Performance Measures: If OCR is successful, OCR staff will have ready access to OCR policy, survey information and case processing data via an electronic network. The public will have appropriate access to the information for which it has greatest need. Electronic communication will be available and used among staff in headquarters and between headquarters staff and the regions.

Short Term Strategies:

- (1) OCR will achieve a one-to-one staff to computer ratio.
- (2) OCR will have a LAN to which headquarters staff are connected and regional offices have access.
- (3) OCR will make available its policy, findings, and survey data via the LAN. Expert teams will manage specialized libraries for issue-specific information.

Long Term Strategies:

- (1) OCR will connect all regional staff to the LAN.

(2) OCR will move all mainframe based systems to less costly and more accessible LAN-based systems.

(3) OCR will provide public access to its electronic information systems.

Objective C: Work Place Fairness

OCR will create a model work place, which includes an integrated and diverse work force that respects all its staff. OCR will foster communication and cooperation among its components and staff. OCR will strive to provide all staff with a safe, comfortable and well equipped work place.

Performance Measures: If OCR is successful, OCR will achieve diversity in hiring, retention, and promotion of staff. OCR managers will regularly meet and discuss with staff issues of work place satisfaction, and solicit and act on recommendations. OCR staff will note increases in satisfaction with the workplace and in productive communication. They will note an increase in cooperation among OCR components and staff.

Short Term Strategies:

(1) OCR will develop an agency wide affirmative action plan that identifies the OCR's long term hiring and promotion objectives and the actions OCR will take to achieve those objectives.

(2) OCR will develop a system of 360 degree evaluation (supervisor, peers and staff) to provide all staff with more effective feedback.

(3) OCR will develop a periodic survey of its staff.

Long Term Strategies:

(1) OCR will provide every office with appropriate and adequate space and furniture.

(2) OCR will develop a system of flexible specialization to take advantage of special staff interests and abilities.

(3) OCR will develop internal capacity for the quick, fair and amiable resolution of disputes.